

CRS Report for Congress

Iran: U.S. Concerns and Policy Responses

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Summary

According to the Administration's "National Security Strategy" document released on March 16, 2006, the United States "may face no greater challenge from a single country than Iran." That perception, generated first and foremost by Iran's developing nuclear program, intensified following the military confrontation between Iranian-armed and assisted Lebanese Hezbollah and Israel in July-August 2006. To date, the Bush Administration has pursued several avenues to attempt to contain the potential threat posed by Iran, but the Administration's focus on preventing an Iranian nuclear weapons breakthrough — as well as on stabilizing Iraq — has brought diplomatic strategy to the forefront. The Bush Administration announced May 31, 2006, it would negotiate with Iran in concert with U.S. allies if Iran suspends uranium enrichment. However, Iran did not comply with an August 31, 2006, deadline to cease uranium enrichment, contained in U.N. Security Council Resolution 1696 (July 31, 2006). After almost four months of negotiations during which Russia and, to a lesser extent, China, argued that diplomacy with Iran would yield greater results than would sanctions, the Security Council imposed modest sanctions on trade with Iran's nuclear infrastructure and a freeze on trade with and the assets of related entities and personalities. (Resolution 1737, passed unanimously on December 23, 2006). Iran remains out of compliance, and the international community is discussing further sanctions against Iran.

Other Iranian policies — particularly its material support to groups that use violence to prevent Israeli-Arab peace or undermine pro-U.S. governments — are attracting growing U.S. concern. These groups include Lebanese Hezbollah and the Palestinian groups Hamas and Palestinian Islamic Jihad. Some U.S. officials also believe that Iran is purposefully harboring several senior Al Qaeda activists, although Iran claims they are "in custody." U.S. officials accuse Iran of attempting to exert influence in Iraq and causing the deaths of U.S. troops by providing arms and other material assistance to Shiite Islamist militias participating in escalating sectarian violence against Iraq's Sunnis. In part to direct regional attention to that view but also to engage Iran on an Iraq solution, the Administration supported and attended an Iraqi regional conference attended by Iran (and Syria).

The Administration is pursuing a containment strategy to support its diplomacy on Iran, including a naval buildup in the Persian Gulf, efforts to persuade European governments to curb trade with Iran, and pressure on foreign banks not to do business with Iran. Amid signs that the pressure is causing increased strains among leaders in Iran, the Administration strongly denies it is planning on military action against Iran. Still, some in the Administration believe that only a change of Iran's regime would end the threat posed by Iran, although without a clear means of achieving such a result. Some legislation introduced in the 110th Congress, including H.R. 1400 and H.R. 957, would tighten some U.S. sanctions on Iran.

For further information, see CRS Report RS20871, *The Iran Sanctions Act (ISA)*, by Kenneth Katzman; CRS Report RS21592, *Iran's Nuclear Program: Recent Developments*, by Sharon Squassoni; and CRS Report RS22323, *Iran's Influence in Iraq*, by Kenneth Katzman. This report will be updated as warranted.

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Iran: U.S. Concerns and Policy Responses

Much of the debate over U.S. policy toward Iran has centered on the nature of the current regime; some believe that Iran, a country of almost 70 million people, is a threat to U.S. interests because hardliners in Iran's regime dominate and set a policy direction intended to challenge U.S. influence and allies in the region. President Bush, in his January 29, 2002, State of the Union message, labeled Iran part of an "axis of evil" along with Iraq and North Korea.

Political History

The United States was an ally of the late Shah of Iran, Mohammad Reza Pahlavi ("the Shah"), who ruled from 1941 until his ouster in February 1979. The Shah assumed the throne when Britain and Russia forced his father, Reza Shah Pahlavi (Reza Shah), from power because of his perceived alignment with Germany in World War II. Reza Shah had assumed power in 1921 when, as an officer in Iran's only military force, the Cossack Brigade, he launched a coup against the government of the Qajar Dynasty. He was proclaimed Shah in 1925, founding the Pahlavi dynasty. The Qajar had been in decline for many years before Reza Shah's takeover. Its perceived manipulation by Britain and Russia had been one of the causes of the 1906 constitutionalist movement, which forced the Qajars to form Iran's first Majles (parliament) in August 1906 and to promulgate a constitution (December 1906).

The Shah was anti-Communist, and the United States viewed his government as a bulwark against the expansion of Soviet influence in the Persian Gulf. In 1951, under pressure from nationalists in the Majles (parliament) who gained strength in the 1949 Majles elections, he appointed a popular nationalist parliamentarian, Dr. Mohammad Mossadeq, as Prime Minister. Mossadeq was widely considered left-leaning, and the United States was wary of his policies, which included his drive for nationalization of the oil industry. Mossadeq's followers began an uprising in August 1953 when the Shah tried to dismiss Mossadeq, and the Shah fled. The Shah was restored in a successful CIA-supported uprising against Mossadeq.

The Shah tried to modernize Iran and orient it toward the West, but in so doing he also tried to limit the influence of Iran's Shiite clergy. He exiled Ayatollah Ruhollah Khomeini in 1964 because of Khomeini's active opposition to the Shah, opposition based on the Shah's anti-clerical policies and what Khomeini alleged was the Shah's forfeiture of Iran's sovereignty to his patron, the United States. Khomeini fled to and taught in Najaf, Iraq, a major Shiite theological center that contains the Shrine of Imam Ali, Shiism's foremost figure. There, he was a peer of senior Iraqi Shiite clerics and, with them, advocated direct clerical rule — *velayat-e-faqih* (rule

by a supreme Islamic jurist). In 1978, three years after the March 6, 1975, Algiers Accords between the Shah and Iraq's Baathist leaders, which settled territorial disputes and required each party to stop assisting each others' oppositionists, Iraq expelled Khomeini to France, from which he stoked the Islamic revolution. Mass demonstrations and guerrilla activity by pro-Khomeini forces, allied with a broad array of anti-Shah activists, caused the Shah's government to collapse in February 1979. Khomeini returned from France and, on February 11, 1979, declared an Islamic Republic of Iran, as enshrined in the constitution that was adopted in a public referendum in December 1979 (and amended in 1989). Khomeini was strongly anti-West and particularly anti-U.S., and relations between the United States and the Islamic Republic turned hostile even before the November 4, 1979, seizure of the U.S. Embassy by pro-Khomeini radicals.

Regime Stability, Human Rights, and Recent Elections

About a decade after founding the Islamic republic, Ayatollah Ruhollah Khomeini died on June 3, 1989. The regime he established appears relatively stable, despite internal schisms, occasional unrest in areas inhabited by minorities, and substantial unpopularity among intellectuals, students, educated elites, and many women. Upon his death, one of his disciples, Ayatollah Ali Khamene'i, then serving as president, was selected Supreme Leader by an "Assembly of Experts" (an elected body).¹ (The fourth election for the Assembly of Experts was held on December 15, 2006.) Khamene'i had served two terms as elected president (1981-1989), but he has always lacked the unquestioned religio-political authority of Khomeini. He has compensated in recent years by using his formal powers to appoint heads of key institutions, such as the armed forces and half of the twelve-member Council of Guardians.² This conservative-controlled body reviews legislation to ensure it conforms to Islamic law, and it screens election candidates. Another appointed body is the 37-member Expediency Council, set up in 1988 to resolve legislative disagreements between the *Majles* (parliament) and the Council of Guardians. It is headed by former President (1989-1997) Akbar Hashemi-Rafsanjani; its executive officer is former Revolutionary Guard leader Mohsen Reza'i.

Former President Mohammad Khatemi and the Reformists.

Reformists led by Mohammad Khatemi, a mid-ranking cleric, led the government during 1997-2005. Khatemi was elected in May 1997, with 69% of the vote. He was re-elected in June 2001, with an even larger 77% of the vote, against nine conservative candidates. Khatemi rode a wave of sentiment for easing social and political restrictions among students, intellectuals, youths, and women. These segments wanted reform, although not an outright replacement of the Islamic republican regime. Khatemi's supporters held about 70% of the 290 seats in the

¹ The Assembly also has the power to amend Iran's constitution.

² The Council of Guardians consists of six Islamic jurists and six secular lawyers. The six Islamic jurists are appointed by the Supreme Leader. The six lawyers on the Council are selected by the judiciary but confirmed by the Majles (parliament).

2000-2004 Majles after their victory in the February 18, 2000, elections. Pro-reform elements gradually became disillusioned with Khatemi for his refusal to confront the hardliners. This dissatisfaction erupted in major student demonstrations in July 1999 in which four students were killed by regime security forces, and Khatemi reluctantly backed the crackdown. On June 8, 2003, a time period marking the fourth anniversary of those riots, regime forces again suppressed pro-reform demonstrators. President Bush issued statements in support of the 2003 demonstrators, although then Secretary of State Powell said the protests represented a “family fight” within Iran.

Khatemi was supported by several political organizations:

- The Islamic Iran Participation Front (IIPF). The most prominent and best organized pro-reform grouping, it is headed by Khatemi’s brother, Mohammad Reza Khatemi, who was a deputy speaker in the 2000-2004 Majles.
- The student-led Office for Consolidation and Unity. This group, mainly composed of students, became critical of Khatemi for failing to challenge the hardliners.
- The Mojahedin of the Islamic Revolution organization (MIR). Composed mainly of left-leaning Iranian figures who support state control of the economy.
- The Society of Combatant Clerics. A long-time moderate clerical grouping, it was led by Mohammad Khatemi following his departure from the presidency. Khatemi, who now heads the International Center for Dialogue Among Civilizations, continues to travel abroad and remains a public figure in Iran. He visited the United States in September 2006 to speak at Harvard University and the Washington National Cathedral on his concept of “dialogue of civilizations,” although he has criticized U.S. Middle East policy.

With Khatemi constitutionally ineligible to run again in the June 2005 presidential election, reformist organizations (formal “parties” have not been approved) tried to elect another of their own. For the first round of the voting on June 17, many reformists had pinned their hopes on former science minister Mostafa Moin, but he finished fifth, disappointing reformists. However, the reformists fared unexpectedly well in the December 15, 2006, municipal council elections, winning four of the 15 seats on the Tehran city council.

The Conservatives and Election of Mahmoud Ahmadinejad. Iran’s conservatives are divided between those who favor free market economics and those who favor state control of the economy and increased social welfare, among other issues. Supported by Khamene’i, the broad conservative camp has been gaining strength since the February 28, 2003, municipal elections, when reformists largely boycotted and hardliners won most of the seats. They gained additional strength from the February 20, 2004, Majles elections, in which the Council of Guardians disqualified about 3,600 mostly reformist candidates, including 87 members of the current Majles, enabling the conservatives to win a majority (about 155 out of the

290 seats) on turnout of about 51%. The Majles speaker chosen was Gholem Ali Haded-Adel, a relative by marriage of Khamene'i. The United States, most European Union countries, and the U.S. Senate (S.Res. 304, adopted by unanimous consent on February 12, 2004) criticized the elections as unfair, because of candidate screening.

On the tide of these victories, Rafsanjani regained much of his former political prominence — while remaining a key strategist and adviser to Khamene'i — and ran in the June 2005 presidential elections. (He was constitutionally permitted to run because a third term would not have been consecutive with his previous two terms.) He has been the patron of many conservatives, although he ran on a pro-free market, pro-reform platform. Rafsanjani had several more conservative opponents, three of whom had ties to the Revolutionary Guard, including former state broadcasting head Ali Larijani; former Revolutionary Guard Air Force commander and police chief, Mohammad Baqer Qalibaf; and Tehran mayor Mahmoud Ahmadinejad. Former Guard commander-in-chief Mohsen Reza'i dropped out before the election was held.

On May 22, 2005, the Council of Guardians significantly narrowed the field of candidates to 6 out of the 1,014 persons who filed. (In the 2001 presidential election, the Council permitted 10 out of the 814 registered candidates.) At Khamene'i's request, two reformist candidates were reinstated (Moin and Mohsen Mehralizadeh). On the eve of the first round, President Bush criticized the elections as unfair because of the denial of so many candidacies.³ In the June 17, 2005 first round, turnout was about 63% (29.4 million votes out of 46.7 million eligible voters). With 21% and 19.5%, respectively, Rafsanjani and Ahmadinejad moved to a run-off. Ahmadinejad won a landslide victory in the June 24 runoff, receiving 61.8% to Rafsanjani's 35.7%. Turnout was 47%, less than the first round, suggesting that reformists did not turn out in large numbers to prevent Ahmadinejad's election. He took office on August 6, 2005.

On August 14, 2005, Ahmadinejad presented for Majles confirmation a 21-member cabinet composed largely of little-known hardliners, over half of whom were his associates in the Revolutionary Guard, the Basij, or the Tehran mayoralty. However, the Majles rejected the first three of his oil-minister nominees. He appointed Larijani, one of his first round rivals, as Secretary General of the Supreme National Security Council; he serves as chief negotiator on nuclear and most other security issues. In keeping with a practice begun by Khatemi, he also named a woman as one of his vice presidents. Qalibaf assumed Ahmadinejad's former job as Tehran mayor. Since taking office, Ahmadinejad has inflamed world opinion with several anti-Israel statements, the first of which was stated at an October 26, 2005, Tehran conference entitled "A World Without Zionism" that "Israel should be wiped off the map" and that "anybody who recognizes Israel will burn in the fire of the Islamic nations' fury." A U.N. Security Council statement and Senate and House resolutions (H.Res. 523 and S.Res. 292), passed in their respective chambers, condemned the statement. For more statements along these lines by Ahmadinejad, see CRS Report RS22569, *Iran: Profile and Statements of President Mahmoud Ahmadinejad*, by Hussein D. Hassan.

³ "Bush Criticizes Iran Election Process as Unfair." Reuters, June 16, 2005.

Ahmadinejad Popularity/December 15, 2006, Elections. Some Iranian leaders and portions of the population appear to be concerned that Ahmadinejad's statements on Israel and open defiance of the international community on the nuclear issue are isolating Iran. The results of the December 15, 2006, municipal council and Assembly of Experts elections showed setbacks for Ahmadinejad supporters. His supporters won only 3 out of the 15 seats on the Tehran city council, with similar results in other major cities. In the crucial Assembly of Experts elections, his mentor, Ayatollah Mohammad Taqi Mesbah-Yazdi, an assertive defender of the powers of the Supreme Leader and a proponent of an "Islamic state" rather than the current "Islamic republic," came in sixth place, well behind top vote-getter Rafsanjani. This scuttled the Ayatollah's plans to win a majority and become speaker of the Assembly, which formally oversees the work of the Supreme Leader. Some believed Mesbah-Yazdi was trying to replace Khamene'i as Supreme Leader. Just before the elections, students protested Ahmadinejad during a speech at Tehran's Amir Kabir University, a possible preview of his waning popularity.

Mahmoud Ahmadinejad

First non-cleric to be president of the Islamic republic since the assassination of then president Mohammad Ali Rajai in August 1981. About 50, he campaigned as a "man of the people," the son of a blacksmith who lives in modest circumstances, who would promote the interests of the poor and return government to the principles of the Islamic revolution during the time of Ayatollah Khomeini. His official biography says he served with the "special forces" of the Revolutionary Guard, and he served subsequently (late 1980s) as a deputy provincial governor. With his momentum from the first round, and backing from his "Isargaran" faction composed of former Guard and Basij (volunteer popular forces) leaders and other hardliners. U.S. intelligence reportedly determined he was not, as was thought by some, one of the holders of the 52 American hostages during November 1979-January 1981. His mentor is Ayatollah Mohammed Taqi Mesbah-Yazdi, the founder of the hardline Haqqani religious school. Other accounts say Ahmadinejad believes his mission is to prepare for the return of the 12th "Hidden" Imam, whose return from occultation would, according to Twelver Shiite doctrine, be accompanied by the establishment of Islam as the global religion. In an October 2006 address, Ahmadinejad said, "I have a connection with God." For more information, see CRS Report RS22569, *Iran: Profile and Statements of President Mahmoud Ahmadinejad*, by Hussein Hassan.

Even before the elections, there was speculation that Supreme Leader Khamene'i was trying to curb Ahmadinejad's authority. The first decision that strengthened the view that Khamene'i seeks to constrain Ahmadinejad was the October 2005 grant of new governmental supervisory powers to Rafsanjani's Expediency Council. The second was the July 2006 creation of a ten-person advisory "Foreign Policy Committee" consisting of former defense and foreign ministers. In January 2007, an Iranian newspaper owned by Khamene'i admonished Ahmadinejad to remove himself from the nuclear issue. However, Ahmadinejad's ties to the Revolutionary Guard and other revolutionary institutions, coupled with his insistence on nuclear progress, which still is popular in Iran, likely positions him to weather criticism from senior leaders and others.

Table 1. Selected Economic Indicators

Economic Growth (2005)	4.8%
Proven Oil Reserves	100 billion barrels (fifth in world)
Refined Gasoline Imports	\$4 billion value per year (60% from European oil trader Vitol)
Oil Production	4 million barrels per day (mbd)
Oil Exports	2.4 mbd
Major Oil Customers	China - 450,00 barrels per day (bpd); about 4% of China's oil imports; Japan - 800,000 bpd, about 12% of oil imports;; South Korea - about 9% of its oil imports; Italy - 9% from Iran; France - 7%; Belgium - 14%; Turkey - 22%; Greece - 24%; India - 150,000 bpd (10% of its oil imports)
Refined Gasoline Suppliers	India, Kuwait, Turkey, Venezuela
Some Major Trading Partners	Japan (\$7.5 billion exports to Japan); China (\$3.9 billion exports, \$2.7 billion imports); Italy (\$5.3 billion equally divided import/export); Germany (\$4.9 billion imports from); France (\$3.2 billion imports)
Export Credit Guarantees Provided	Italy - \$6.2 billion; Germany \$5.4 billion; France - \$1.4 billion; Spain - \$1 billion, and Austria - \$1 billion
Major Non-Oil Investments	Renault (France) and Mercedes (Germany)- automobile production in Iran; Renault (France), Peugeot (France) and Volkswagen (Germany) - auto parts production; Turkey - Tehran airport improvement, hotels; China - shipbuilding on Qeshm Island, aluminum factory in Shirvan, cement plant in Hamadan; UAE financing of Esfahan Steel Company; India - steel plant; S. Korea - steel plant in Kerman Province.
Trade With U.S. (2004)	\$142 million exports to U.S.; \$94 million imports (trade is severely restricted by U.S. sanctions, as discussed later)
Foreign Exchange Reserves	\$40 billion+
External Debt	\$19 billion (2005 est.)
Income Per Capita (purchasing power parity)	\$8,100 per year
Unemployment Rate	11.2% (2004)

Source: CIA World Factbook, various press, IMF.

Ahmadinejad also has tried to protect his position by appealing to the lower classes. He has directed the raising of some wages, cancelled some debts of farmers, and increased social welfare payments and subsidies, although perhaps not to the degree he had promised in his campaign. His distributive policies have been supported, in part, by relatively high oil prices, which are still nearly \$60 per barrel, and the budget he submitted in January 2007 assumes an oil price of only \$33 per barrel. The relative health of Iran's budget could help Iran minimize the effects of international sanctions resulting from Iran's nuclear defiance. Still, Ahmadinejad has not moved to correct economic structural imbalances, such as the dependence on oil revenues, which account for about 20% of Iran's gross domestic product (GDP), and its extensive imports of refined gasoline. Major economic sectors or markets are controlled by the quasi-statal "foundations" (*bonyads*), run by powerful former officials, and there are special trading privileges for Iran's powerful bazaar merchants who form the main constituency for other conservatives. In a January 2007 letter, 150 parliamentarians in the 290-seat Majles criticized his economic results, including rising inflation.

Groups Advocating Change

The regime appears generally stable for now, but there are factions and movements that are actively seeking to substantially modify its policies or to replace it outright. The groups that seek to replace the regime, by accounts of observers, have little popularity inside Iran.

Regime Members-Turned Dissidents. Several dissidents were part of the regime but now seek change, including the withdrawal of Iran's clerics from direct participation in government. They reputedly are popular inside Iran, but their ascendancy, were it to occur, might not fundamentally alter Iran's relations with the United States. One such figure, Ayatollah Hossein Ali Montazeri, was released in January 2003 from several years of house arrest, but he remains under scrutiny. He had been Khomeini's designated successor until 1989, when Khomeini dismissed him for allegedly protecting intellectuals and other opponents of clerical rule. Another senior cleric who takes this position, Ayatollah Mohammad Kazemini Boroujerdi, was arrested on October 8, 2006. Other former regime dissidents still closely watched or harassed include theoretician Abd al-Karim Soroush, former Interior Minister Abdollah Nuri, and former hostage-holder Abbas Abdi, who had been arrested for publishing an opinion poll purporting to show that the Iranian public favors restoring relations with the United States.

Anti-Regime Groups: People's Mojahedin Organization of Iran (PMOI). Of the groups seeking to replace the regime, one of the best known is the People's Mojahedin Organization of Iran (PMOI).⁴ Secular and left-leaning, it was formed in the 1960s to try to overthrow the Shah of Iran and advocated a form of Marxism blended with Islamic tenets. It allied with pro-Khomeini forces during the Islamic revolution and supported the November 1979 takeover of the U.S. Embassy in Tehran but was later purged and driven into exile. In June 2003, France arrested

⁴ Other names by which this group is known is the Mojahedin-e-Khalq Organization (MEK or MKO) and the National Council of Resistance (NCR).

about 170 PMOI members, including its co-leader Maryam Rajavi (wife of PMOI founder Masoud Rajavi, whereabouts unknown); she was released and remains based in France, and is occasionally received by European parliamentarians and other politicians. In December 2006, a European Union (EU) court struck down EU's freezing of the PMOI's assets in Europe.

Even though it is an opponent of Tehran, since the late 1980s the State Department has refused contact with the PMOI and its umbrella organization, the National Council of Resistance (NCR). The State Department designated the PMOI as a foreign terrorist organization (FTO) in October 1997⁵ and the NCR was named as an alias of the PMOI in the October 1999 re-designation. The FTO designation was prompted by PMOI attacks in Iran that sometimes killed or injured civilians — although the group does not appear to purposely target civilians. The State Department report on international terrorism for 2005 (p. 212), for the first time, incorporates an assertion by the group that it was a radical element of the organization — rather than the leadership of the organization itself — that was responsible for the alleged killing of seven American defense advisers to the former Shah in 1975-1976. The State Department report also notes the group's promotion of women in its ranks. On August 14, 2003, the State Department designated the NCR offices in the United States an alias of the PMOI, and NCR and Justice Department authorities closed down those offices. In November 2002, a letter signed by about 150 House Members was released, asking the President to remove the PMOI from the FTO list.⁶

The group's alliance with Saddam Hussein's regime in the 1980s and 1990s contributed to the U.S. shunning of the organization. U.S. forces attacked PMOI military installations in Iraq during Operation Iraqi Freedom and negotiated a ceasefire with PMOI military elements in Iraq, requiring the approximately 4,000 PMOI fighters to remain confined to their Ashraf camp near the border with Iran. Its weaponry is in storage, guarded by U.S. and now Bulgarian military personnel.

Press reports say that some Administration officials want the group removed from the FTO list and want a U.S. alliance with it against the Tehran regime.⁷ Those advocating that policy took heart from the U.S. decision in July 2004 to grant the Ashraf detainees "protected persons" status under the 4th Geneva Convention, meaning they will not be extradited to Tehran or forcibly expelled as long as U.S. forces remain in Iraq. At the same time, some Iraqi leaders from pro-Iranian factions, including Prime Minister Nuri al-Maliki, have said that the group would be expelled from Iraq some time in 2007.

The Son of the Former Shah. Some Iranian exiles, as well as some elites still in Iran, want to replace the regime with a constitutional monarchy led by Reza

⁵ The designation was made under the authority of the Anti-Terrorism and Effective Death Penalty Act of 1996 (P.L. 104-132).

⁶ "Removal of Iran Group From Terror List Sought." *Washington Post*, Nov. 23, 2002.

⁷ Cloud, David. "U.S., Iran Hit Bumpy Terrain on Road to Rapprochement." *Wall Street Journal*, May 12, 2003.

Pahlavi, the U.S.-based son of the late former Shah and a U.S.-trained combat pilot. However, he does not appear to have large-scale support inside Iran. In January 2001, the Shah's son, who is about 48 years old, ended a long period of inactivity by giving a speech in Washington D.C. calling for unity in the opposition and the institution of a constitutional monarchy and democracy in Iran. He has since broadcast messages into Iran from Iranian exile-run stations in California.⁸ His political adviser is MIT-educated Shariar Ahy.

Other U.S.-Based Activists. Numerous other Iranians, not necessarily linked to the Shah's son or the PMOI, want to see a change of regime in Tehran. Many of them are based in California, where there is a large Iranian-American community, and there are about 25 small-scale radio or television stations that broadcast into Iran. Some U.S.-based activists are the following:

- *The Abdorrahman Boroumand Foundation.* This foundation, led by two Boroumand sisters, is trying to document human rights abuses in Iran.
- *The Iran Human Rights Documentation Center (IHDC).* The center is run by persons mostly of Iranian origin and affiliated with Yale University's Griffin Center for Health and Human Rights. It is documenting abuses in Iran, using contacts with Iranians in Iran.
- *The National Iranian American Council (NIAC).* The organization's objective is to build and expand networks of Iranian-American organizations, but it is generally considered an advocate of U.S. engagement with Tehran.
- *Amir Abbas Fakravar.* A leader of the student dissidents who emerged in the July 1999 anti-regime student riots. A former medical student, he served time in Iranian prisons.
- *Iran of Tomorrow Movement.* This group claims to have "resistance cells" inside Iran. It operates a 24-hour satellite TV station and a radio broadcast. A related movement, "XTV," advocates the non-violent overthrow of the regime and is close to the Shah's son.
- *Channel One TV/Radio Pedar.* Run by Mr. Shahram Homayoun, a Los Angeles-based exile, this station broadcasts to Iran one hour each day.
- *Rang A Rang Television.* Led by Davar Veisheh and based in Vienna, Virginia, advocates regime change through peaceful means.

⁸ Kampeas, Ron. "Iran's Crown Prince Plots Nonviolent Insurrection from Suburban Washington." Associated Press, Aug. 26, 2002.

No U.S. assistance has been provided to exile-run stations. However, the conference report on the FY2006 regular foreign aid appropriations, P.L. 109-102, states the sense of Congress that the Administration consider such financial support.

Human Rights and Religious Freedom

The State Department's human rights report for 2006, released March 6, 2007, said Iran's already poor human rights record "worsened" during the year. That report, and the 2006 State Department "religious freedom" report (released September 15, 2006), cite Iran for widespread human rights abuses (especially of the Baha'i faith), including summary executions, disappearances, torture, arbitrary arrest and detention, and discrimination against women.⁹ Specific trends include the following:

- Since 2000, hardliners in the judiciary have closed hundreds of reformist newspapers, although many have tended to reopen under new names, and authorities have imprisoned or questioned several editors and even some members of the Majles. Iran also has blocked hundreds of pro-reform websites. On December 19, 2005, Ahmadinejad banned Western music from Iran's state media, reviving a cultural decree from Ayatollah Khomeini's rule.
- The State Department reports that in January 2006, the regime forcibly repressed a strike by the 17,000-member Tehran bus drivers union who were demonstrating for the release of eight labor leaders who were incarcerated after a strike for higher wages. The leaders were released in March 2006. In May 2006, the regime arrested a prominent academic, Ramin Jahanbegloo, for alleged contacts with foreign governments.
- There was an apparent beating death of a Canadian journalist of Iranian origin, Zahra Kazemi, while she was in Iranian detention. She had been detained in early July 2003 for filming outside Tehran's Evin prison. An intelligence agent who allegedly conducted the beating was acquitted on July 25, 2004, prompting accusations that the investigation and trial were unfair. The prosecutor in her case, Saeed Mortazavi, allegedly responsible for numerous human rights abuses, was Iran's representative to the inaugural meeting of the U.N. Human Rights Council.
- Imprisoned journalist Akbar Ganji, who conducted hunger strikes to protest regime oppression, was released on schedule on March 18, 2006. He had been sentenced in 2001 to six years in prison for alleging high-level involvement in a series of murders of Iranian dissident intellectuals that the regime had blamed on "rogue agents" in the security apparatus. The Bush Administration issued a

⁹ For text of both, see [<http://www.state.gov/g/drl/rls/hrrpt/2005/61688.htm>]; and [<http://www.state.gov/g/drl/rls/irf/2005/51599.htm>].

statement calling for his release on July 12, 2005. In the 109th Congress, H.Res. 414 expressed the sense of Congress that the United States and United Nations should condemn Iran's imprisonment of him.

- On the issue of women's rights, the most widely reported issue is the requirement that women fully cover themselves in public, generally with a garment called a *chador*. There has been a progressive relaxation of enforcement of this rule, particularly during Khatemi's presidency. To date, Ahmadinejad has not reversed that relaxation. However, on March 4, 2007, the regime arrested 31 women activists who were protesting the arrest in 2006 of several other women's rights activists; all but 3 of the 31 were released by March 9. In May 2006, the Majles passed a bill calling for increased public awareness of Islamic dress, an apparent attempt to persuade women not to violate the dress code or wear Western fashion. The bill did not, as some outside Iran intimated, contain any requirement or suggestion that members of Iran's minority groups wear badges or distinctive clothing. In April 2006, Ahmadinejad directed that women be allowed to attend soccer matches, but the Supreme Leader reversed that move. Women can vote and run in parliamentary elections, but their candidacies for president have routinely been barred by the Council of Guardians. Iranian women can drive, and many work outside the home, including owning and running their own businesses. Eleven out of the 290 Majles deputies are women.
- Each year since 1999, the State Department religious freedom report has named Iran as a "Country of Particular Concern" under the International Religious Freedom Act, and no significant improvement in Iran's practices on this issue was noted in the International Religious Freedom report for 2006. (No sanctions have been added because of this designation, on the grounds that Iran is already subject to extensive U.S. sanctions.)
- Iran is repeatedly cited for repression of the Baha'i community, which Iran's Shiite Muslim clergy views as a heretical sect. In March 2006, U.N. Special Rapporteur on Freedom of Religion or Belief revealed the existence of an Iranian letter directing greater domestic surveillance of the Baha'is. In the 1990s, several Baha'is were executed for apostasy (Bahman Samandari in 1992; Musa Talibi in 1996; and Ruhollah Ruhani in 1998). Another, Dhabihullah Mahrami, was in custody since 1995 and died of unknown causes in prison in December 2005. In February 2000, Iran's Supreme Court set aside the death sentences against three other Baha'is. Several congressional resolutions have condemned Iran's treatment of the Baha'is, including S.Con.Res. 57 (106th Congress), which passed the Senate July 19, 2000, and H.Con.Res. 257, which passed the House on September 19, 2000. In the 109th Congress, partly in response to a May 2006 wave of arrests of Baha'is in Shiraz, H.Con.Res. 415, requests the Administration

emphasize that it regards Iran's treatment of the Baha'is as a significant factor in U.S. Iran policy.

- On the treatment of Jews (along with Christians, a "recognized minority," with one seat in the Majles), the 30,000-member Jewish community (the largest in the Middle East aside from Israel) enjoys somewhat more freedoms than Jewish communities in several other Muslim states. However, in practice the freedom of Iranian Jews to practice their religion is limited, and Iranian Jews remain reluctant to speak out for fear of reprisals. During 1993-1998, Iran executed five Jews allegedly spying for Israel. In June 1999, Iran arrested 13 Jews (mostly teachers, shopkeepers, and butchers) from the Shiraz area that it said were part of an "espionage ring" for Israel. After an April-June 2000 trial, ten of the Jews and two Muslims accomplices were convicted (July 1, 2000), receiving sentences ranging from 4 to 13 years. An appeals panel reduced the sentences, and all were released by April 2003.
- The State Department human rights report notes other discrimination against Sufis and Sunni Muslims, although abuses against Sunnis could reflect that minority ethnicities, including Kurds, are Sunnis. In addition, the regime has repressed 2006 unrest among the minority Azeri population, as well as Arabs in the southern province of Khuzestan.
- The June 6, 2006 (latest annual), State Department "Trafficking in Persons" report places Iran in Tier 3 (worst level) for failing to take action to prevent trafficking in persons. Girls purportedly are trafficked for sexual exploitation within Iran and from Iran to Turkey, Pakistan, and the Persian Gulf states.

Successive administrations have not generally considered Iran's human rights practices as a strategic threat to U.S. interests, but the Bush Administration has highlighted Iran's human rights record as part of an effort to build international consensus to pressure Iran. The Administration has established with European allies and Canada a "Human Rights Working Group" that coordinates a response to Iran's human rights abuses. A special U.N. Human Rights Commission monitoring mission for Iran, consisting of reports by a "Special Representative" on Iran's human rights record, was conducted during 1984-2002. Iran has since agreed to "thematic" monitoring consisting of periodic U.N. investigations of specific aspects of Iran's human rights record. Iran is a party to the two international human rights covenants.

Iran's Strategic Capabilities and Weapons of Mass Destruction Programs

The Administration's "National Security Strategy" document released March 16, 2006, says the United States "may face no greater challenge from a single country than from Iran," an assessment based largely on Iran's growing weapons of mass destruction (WMD) programs and its ability to exert influence in the region.¹⁰

Conventional Military

Iran's conventional armed forces are large but widely considered relatively combat ineffective against a well-trained military such as that of the United States. Iran's forces are believed to be sufficiently effective to deter or fend off conventional threats from Iran's relatively weak neighbors such as post-war Iraq, Turkmenistan, Azerbaijan, and Afghanistan but are largely lacking in logistical ability to project power much beyond Iran's borders. Lacking such combat capability, Iran has avoided cause for conflict with its more militarily capable neighbors such as Turkey and Pakistan. Iran's Revolutionary Guard Corps, which also controls the *Basij* volunteer militia that enforces adherence to Islamic customs, is generally loyal to the hardliners politically. (In the 110th Congress, a provision of H.R. 1400 calls for the Revolutionary Guard to be designated a foreign terrorist organization, or FTO.)

Iran has acquired a structure for unconventional warfare that partly compensates for its conventional weakness. Outgoing CENTCOM commander Gen. John Abizaid said in March 2006 that the Revolutionary Guard Navy, through its basing and force structure, is designed to give Iran a capability to "internationalize" a crisis in the Strait of Hormuz, which could perhaps be the result of U.S.-Iran conflict over Iraq or over Iran's nuclear program. In his confirmation hearings on January 30, 2007, Abizaid's replacement, Admiral William Fallon, said that "Based on my read of their military hardware acquisitions and development of tactics... [the Iranians] are posturing themselves with the capability to attempt to deny us the ability to operate in [the Strait of Hormuz]." Although many experts believe that U.S. forces could quickly reopen the Strait if Iran closed it, Iran has tried to demonstrate that it is a capable force in the Gulf. It conducted major military exercises on August 20, 2006, and during November 2-12, 2006 (which included firing a Shahab-3 missile, discussed below). Other exercises were conducted in January and February 2007, and CNN reported on February 21, 2007, that Iranian ships are widening their patrols, coming ever closer to key Iraqi oil platforms in the Gulf. Such capabilities include ship-launched cruise missiles, midget subs, and anti-aircraft missile systems.

Some fear that Iran might try to use suicide boat attacks or to lay mines in the Strait. In April 2006, Iran conducted naval maneuvers including test firings of what Iran claims are underwater torpedos that can avoid detection, presumably for use against U.S. ships in the Gulf, and a surface-to-sea radar-evading missile launched from helicopters or combat aircraft. U.S. military officials said the claims might be an exaggeration.

¹⁰ See [<http://www.whitehouse.gov/nsc/nss/2006/>].

Table 2. Iran's Military Capabilities

Military Personnel	Tanks	Surface-Air Missiles	Combat Aircraft	Ships	Defense Budget (billions U.S \$)
540,600 (regular military and Revolutionary Guard Corps (IRGC))	1,693 (incl. 75 T-72)	76 batteries (incl. I-Hawk) plus some Stinger	280 (incl. 25 MiG-29 and 30 Su-24)	260 (incl. 10 Chinese-made Hudong, 40 Boghammer, 3 frigates) Also has 3 Kilo subs	4.4
Number of "Qods Forces" of IRGC			Approximately 3,000 total in the Qods Force, which promotes Iran's regional and global objectives through advisory support to pro-Iranian factions in Lebanon, Iraq, Persian Gulf states, Afghanistan, and Central Asia. Also operates worldwide intelligence network to give Iran possible terrorist option and to assist in procurement of WMD-related technology.		
Ship-launched cruise missiles			Iran is able to arm its patrol boats with Chinese-made C-802 cruise missiles. Iran also has Chinese-supplied HY-2 Seerseekers emplaced along Iran's coast. Both systems could be used to try to block the Strait of Hormuz, to attack Persian Gulf state oil export terminals, or to threaten shipping through that waterway. ^a		
Midget Subs			Iran is said to possess several midget submarines, possibly purchased assembled or in kit form from North Korea. Iran could try to use these vessels in any conflict, although some experts believe that U.S. naval forces could detect and counter this equipment, particularly the larger vessels, without substantial difficulty.		
Anti-aircraft missile systems			Russia has sold and now delivered to Iran (January 2007) 30 anti-aircraft missile systems (Tor M1), worth over \$1 billion. A press report in late September 2006 said that Ukraine has agreed to sell Iran the Kolchuga radar system that can improve Iran's detection of combat aircraft.		

a. Jacoby testimony before the Senate Intelligence Committee. Feb. 16, 2005.

Weapons of Mass Destruction: Nuclear Program¹¹

Some observers believe that Iran and the international community have reached a crisis over Iran's nuclear program. Many outside experts and governments believe that Iran is attempting to achieve a nuclear weapons capability, and U.S. policy is to prevent that outcome. On September 5, 2006, President Bush said "I am not going to allow [a nuclear-armed Iran]."¹² The International Atomic Energy Agency (IAEA), despite intensified inspections and other means of investigation since late 2002, says it cannot verify that Iran's program is purely peaceful, and several of its reports (January 31, 2006 and February 27, 2006) say it found documents that show a possible "military nuclear dimension" to Iran's program.

Iranian leaders insist that Iran's nuclear program is for electricity generation because its oil resources are finite and that enriching uranium to make nuclear fuel is allowed under the 1968 Nuclear Non-Proliferation Treaty,¹³ to which Iran is a party. An analysis was published by the National Academy of Sciences challenging the U.S. view that Iran is petroleum rich and therefore has no need for a nuclear power program. According to the analysis, the relative lack of investment is causing a rapid decline in Iranian oil exports to the point where Iran might have negligible exports of oil by 2015.¹⁴ U.S. officials say that Iran's vast gas resources make a nuclear energy program unnecessary.

Despite Iran's professions that WMD is inconsistent with its ideology, Iran's factions appear to agree on the utility of a nuclear weapons capability as a means of ending its perceived historic vulnerability to U.S. domination and a symbol of Iran as a major nation. Others believe Iran sees nuclear weapons as instruments to dominate the Persian Gulf, and these experts believe an Iranian nuclear weapon would dramatically shift the balance of power in the Gulf/Middle East in Iran's favor. There are also fears Iran might transfer WMD to extremist groups or countries.

Although suspicions of Iran's intentions are widely shared, there is disagreement over the urgency of the issue. The CIA reportedly has found no firm evidence that Iran is trying to develop a nuclear weapon.¹⁵ In August 2005, press reports about an intelligence community estimate said the U.S. estimate of an Iranian nuclear weapons

¹¹ For further information, see CRS Report RS21592, *Iran's Nuclear Program: Recent Developments*, by Sharon Squassoni.

¹² Schweid, Barry. "Bush: Won't Allow A Nuclear-Armed Iran." Associated Press, September 5, 2006.

¹³ For Iran's arguments about its program, see Iranian paid advertisement "An Unnecessary Crisis — Setting the Record Straight About Iran's Nuclear Program," in the *New York Times*, Nov. 18, 2005. P. A11.

¹⁴ Stern, Roger. "The Iranian Petroleum Crisis and United States National Security," *Proceedings of the National Academy of Sciences of the United States of America*. December 26, 2006.

¹⁵ "CIA Analysis Finds No Iranian Nuclear Weapons Drive: Report." Available online at [http://fullcoverage.yahoo.com/s/afp/20061119/ts_afp/usiranuclearweaponsmilitary_061119034024]. Nov. 19, 2006.

ranges from 6-10 years from then,¹⁶ and former Director of National Intelligence John Negroponte did not alter that estimate in global threat assessment testimony in January 2007. Other experts focus on a so-called “point of no return” — a point at which Iran has the expertise needed for a nuclear weapon — a point that could be reached within a year by some estimates. On the other hand, some recent press reports — such as an *Associated Press* report of January 16, 2007 — say that Iran’s program faces significant bottlenecks and that it might not yet have mastered centrifuge cascade technology.

European Diplomatic Efforts/“Paris Agreement.” U.S., international, and IAEA attention to Iran’s nuclear program heightened in 2002 after Iran confirmed PMOI allegations that it was building two facilities that could be used to produce fissile material useful for a nuclear weapon. A facility at Natanz could produce enriched uranium, and a facility at Arak is a heavy water production plant considered ideal for the production of plutonium. (In November 2006, the IAEA, at U.S. urging, declined to provide technical assistance to this facility on the grounds that it was likely for proliferation purposes.) It was also revealed in 2003 that the founder of Pakistan’s nuclear weapons program, Abdul Qadeer (A.Q.) Khan, sold Iran and other countries (Libya, North Korea) nuclear technology and designs.¹⁷ At the same time, concerns continued over Russia’s work, under a January 1995 contract, on an \$800 million nuclear power plant at Bushehr. Russia insisted that Iran sign an agreement under which Russia would provide reprocess the plant’s spent nuclear material; that agreement was signed on February 28, 2005. The plant was expected to become operational in 2007, but Russia is refusing to fuel the reactor, perhaps not until 2008, as a signal of concern about Iran’s nuclear program. Russia reportedly is training about 700 Iranian nuclear engineers to operate the plant.

In 2003, France, Britain, and Germany (the “EU-3”) opened a separate diplomatic track to curb Iran’s program. On October 21, 2003, Iran pledged, in return for peaceful nuclear technology, to (1) fully disclose its past nuclear activities, (2) to sign and ratify the “Additional Protocol” to the NPT (allowing for enhanced inspections), and (3) to suspend uranium enrichment activities. Iran signed the Additional Protocol on December 18, 2003, although the Majles has not yet ratified it. Iran abrogated the agreement after the IAEA reports of November 10, 2003, and February 24, 2004, stated that Iran had violated its NPT reporting obligations over an 18-year period.

In the face of the U.S. threat to push for Security Council action, the EU-3 and Iran reached a more specific November 14, 2004, “Paris Agreement,” committing Iran to suspend uranium enrichment (as of November 22, 2004) in exchange for renewed trade talks and other aid.¹⁸ An IAEA board resolution (November 29, 2004)

¹⁶ Linzer, Dafna. “Iran Is Judged 10 Years From Nuclear Bomb.” *Washington Post*, Aug. 2, 2005; Weissman, Steven and Douglas Jehl. “Estimate Revised On When Iran Could Make Nuclear Bomb.” *New York Times*, Aug. 3, 2005.

¹⁷ Lancaster, John and Kamran Khan. “Pakistanis Say Nuclear Scientists Aided Iran.” *Washington Post*, Jan. 24, 2004.

¹⁸ For text of the agreement, see [http://www.iaea.org/NewsCenter/Focus/IaeaIran/eu_iran

recognized the agreement. EU-3 - Iran negotiations on a permanent nuclear pact began on December 13, 2004, and related talks on a trade and cooperation accord (TCA) began in January 2005. On March 11, 2005, the Bush Administration announced it would support, but not join, the EU-3 talks by offering to drop U.S. objections to Iran's application to the World Trade Organization (which it did in May 2005) and to consider sales of U.S. civilian aircraft parts to Iran.

Reference to the Security Council. The Paris Agreement broke down just after the June 2005 election of Ahmadinejad. Iran rejected as insufficient an EU-3 "final settlement" plan (August 5, 2005) that offered to assist Iran with peaceful uses of nuclear energy (medicine, agriculture, and other uses) and provide limited security guarantees in exchange for Iran's (1) permanently ending uranium enrichment; (2) dismantling its heavy water reactor at Arak; (3) agreement to no-notice nuclear inspections; and (4) pledge not to leave the NPT (which has a legal exit clause). On August 8, 2005, Iran broke the IAEA seals on its uranium "conversion" (one step before enrichment) facility at Esfahan and began conversion.

On September 24, 2005, the IAEA Board voted to declare Iran in non-compliance with the NPT and to refer the issue to the Security Council,¹⁹ but no time frame was set for the referral. Iran did not cease uranium conversion (and now has about 200 tons of converted uranium, enough for 20 nuclear weapons if enriched). The Administration supported a November 2005 Russian proposal to Iran to establish a facility in Russia at which Iranian uranium would be enriched, thereby enabling Iran to claim it had retained its right to enrich. Iran did not accept the proposal.

On January 3, 2006, Iran announced that it would resume uranium enrichment for "research" and subsequently broke IAEA seals at its uranium enrichment facilities. On February 4, 2006, the IAEA board voted 27-3²⁰ for a resolution to report Iran to the U.N. Security Council. An IAEA report on February 27, 2006 confirmed that Iran had begun enrichment (10 centrifuges) and, on the basis of that action, on March 29, 2006, the Council agreed on a Council presidency "statement" setting a 30-day time limit (April 28, 2006) for Iran to cease enrichment.²¹ After further non-compliance, the United States sought a formal Security Council resolution to mandate Iran's compliance and authorize punitive measures. However, Russia and China's reservations blocked agreement and, on May 8, 2006, the

¹⁸ (...continued)
14112004.shtml].

¹⁹ Voting in favor: United States, Australia, Britain, France, Germany, Canada, Argentina, Belgium, Ghana, Ecuador, Hungary, Italy, Netherlands, Poland, Portugal, Sweden, Slovakia, Japan, Peru, Singapore, South Korea, India. Against: Venezuela. Abstaining: Pakistan, Algeria, Yemen, Brazil, China, Mexico, Nigeria, Russia, South Africa, Sri Lanka, Tunisia, and Vietnam.

²⁰ Voting no: Cuba, Syria, Venezuela. Abstaining: Algeria, Belarus, Indonesia, Libya, South Africa.

²¹ See [<http://daccessdds.un.org/doc/UNDOC/GEN/N06/290/88/PDF/N0629088.pdf?OpenElement>].

Administration said it would support a renewed diplomatic overture by the EU-3. At the same time, the Administration rebuffed a letter from Ahmadinejad to President Bush²² as offering no new nuclear proposals.

U.S. Offer to Join Talks and Future Steps. In an effort to strengthen the EU-3 diplomacy, as well as to build support for international or multilateral sanctions should that be required, the Administration offered on May 31, 2006, to join the nuclear talks with Iran if Iran first suspends its uranium enrichment. Such talks would center on a package of incentives and possible sanctions that the United States, EU-3, Russia, and China agreed to in Vienna on June 1, 2006, and which EU representative Javier Solana formally presented to Iran on June 6. U.S. and EU officials say that this offer remains open:

Reported Incentives²³

- Negotiations on an EU-Iran trade agreements and acceptance of Iran into the World Trade Organization.
- Easing of U.S. sanctions to permit sales to Iran of commercial aircraft or aircraft parts.
- Sale to Iran of a light-water nuclear reactor and guarantees of nuclear fuel, and possible sales of light-water research reactors for medicine and agriculture applications.
- An “energy partnership” between Iran and the EU, including help for Iran to modernize its oil and gas sector and to build export pipelines.
- Support for a regional security forum for the Persian Gulf, and support for the objective of a WMD free zone for the Middle East.
- The possibility of eventually allowing Iran to resume uranium enrichment if it complies with all outstanding IAEA requirements and can prove that its nuclear program is purely for peaceful purposes.

Reported Sanctions

- Denial of visas for Iranians involved in Iran’s nuclear program and for high-ranking Iranian officials.
- A freeze of assets of Iranian officials or institutions and freeze of Iran’s assets abroad and a ban on some financial transactions with Iran.

²² See [<http://www.president.ir/eng/ahmadinejad/cronicnews/1385/02/19/index-e.htm#b3>].

²³ One source purports to have obtained the contents of the package from ABC News: [<http://www.basicint.org/pubs/Notes/BN060609.htm>]

- A ban on sales of advanced technology and of arms to Iran; and a ban on sales to Iran of gasoline and other refined oil products.
- An end to support for Iran's application to the WTO.

Resolution 1696. Iran said it would give a final response by August 22, 2006, far beyond the deadline for response set by the six powers (July 12) — a time frame set to coincide with the G-8 summit in St. Petersburg (July 15). On July 31, 2006, the Security Council voted 14-1 (Qatar voting no) for U.N. Security Council Resolution 1696, giving Iran until August 31, 2006, to fulfill the longstanding IAEA nuclear demands (enrichment suspension, etc). The resolution is mandatory and, purportedly in deference to Russia and China, it was passed under Article 40 of the U.N. Charter, which makes compliance mandatory, but not under Article 41, which refers to economic sanctions, or Article 42, which would authorize military action. It called on U.N. member states not to sell Iran WMD-useful technology.

On August 22, 2006, Iran submitted a 21-page formal response to the June 6 offer by the six powers, to the ambassadors of those countries in Tehran. The text of Iran's response was not disclosed, but it reportedly offered negotiations on a broader roadmap of engagement with the West — and sought provision of guarantees that the United States would not seek to change Iran's regime — in exchange for possible acceptance of the international demands on the nuclear program. Iran did not offer to suspend uranium enrichment in advance of negotiations.

Resolution 1737. With the backing of the P5+1, including the United States, chief EU negotiator Javier Solana negotiated with Iran to try arrange a temporary enrichment suspension. A round of talks, in Berlin, concluded on September 28, 2006, without agreement, and Iran began operating a second 164-centrifuge cascade in late October 2006. After almost four months of negotiations during which Russia and, to a lesser extent, China, argued that diplomacy with Iran would yield greater results than would sanctions, the Security Council agreed to U.N. Security Council Resolution 1737. It was passed unanimously on December 23, 2006, under Chapter 7, Article 41 of the U.N. Charter. It prohibits sale to Iran — or financing of such sale — of technology that could contribute to Iran's uranium enrichment or heavy-water reprocessing activities. It also requires U.N. member states to freeze the financial assets of ten named Iranian nuclear and missile firms, including the following:

- the Atomic Energy Organization of Iran,
- the Defense Industries Organization,
- Revolutionary Guard commander-in-chief Yahya Rahim Safavi,
- commander of the Guard Air Force Gen. Hosein Salimi; and
- head of the Aerospace Industries Organization (AIO) Ahmad Vahid Dastjerdi.

The Resolution did not mandate the banning of travel by these personalities, but calls on member states not to admit them. The Resolution also provides an exemption for the Bushehr reactor, which Russia had sought. The EU foreign ministers agreed on February 12, 2007, to freeze the assets of the named entities and to impose broader restrictions on entities that might later be identified as assisting Iran's WMD program and to prevent the training of Iranians in Europe that might

contribute to Iran's programs. In reaction, the Majles called for the government to adjust its cooperation with IAEA inspections. In late January 2007, Iran barred 38 out of about 200 IAEA inspectors from upcoming visits.

Possible New Resolution. Resolution 1737 demanded enrichment suspension by February 21, 2007. An IAEA report sent to Board member countries that day reportedly corroborated Iran's statements of defiance. The report said that not only did Iran not suspend enrichment but that it is now operating about 1,000 centrifuges. In London on March 8, 2007, the P5+1 began formal discussions on a new Chapter 7 Security Council resolution that would presumably impose additional sanctions on Iran, and U.S. officials said there was general agreement that additional steps needed to be taken. In subsequent negotiations, differences that emerged in the negotiations on Resolution 1737 re-emerged, although there appears to be agreement to try to share information on Iranian WMD-related officials traveling abroad and possible limits on some arms sales to Iran. Proposals to target the Revolutionary Guard, specifically, and to limit export credits to Iran reportedly are opposed by Russia and China. The section below on "International Sanctions" discusses possible next steps in greater detail.

Chemical Weapons, Biological Weapons, and Missiles

Official U.S. reports and testimony, particularly the semi-annual CIA reports to Congress on WMD acquisitions worldwide, continue to state that Iran is seeking a self-sufficient chemical weapons (CW) infrastructure, and that it "may have already" stockpiled blister, blood, choking, and nerve agents — and the bombs and shells to deliver them. This raises questions about Iran's compliance with its obligations under the Chemical Weapons Convention (CWC), which Iran signed on January 13, 1993, and ratified on June 8, 1997. Unclassified CIA reports to Congress in 2004 said Iran "probably maintain[s] an offensive [biological weapons] BW program ... and probably has the capability to produce at least small quantities of BW agents."

Ballistic Missiles/Warheads. Largely with foreign help, Iran is becoming self sufficient in the production of ballistic missiles and, by U.S. accounts, already has the largest inventory of ballistic missiles in the Middle East. Tehran appears to view its ballistic missiles as an integral part of its strategy to deter or retaliate against forces in the region, including U.S. forces. The Bush Administration is seeking to establish sites in Europe, including Poland and the Czech Republic, to counter Iranian ballistic missiles.

- *Shahab-3.* Two of its first three tests of the 800-mile range *Shahab-3* (July 1998, July 2000, and September 2000) reportedly were inconclusive or unsuccessful, but Iran conducted an apparently successful series of tests in June 2003. Iran subsequently called the *Shahab-3* operational, meaning that it would be capable of hitting Israel. Despite Iran's claims, some U.S. experts say the missile is not completely reliable, and Iran tested a purportedly more accurate version on August 12, 2004. Iran called the test successful, although some observers said Iran detonated the missile in mid-flight. On May 31, 2005, Iran announced it had successfully tested a solid-fuel version of the *Shahab-3*.

- *Warheads.* A *Wall Street Journal* report of September 14, 2005, said that U.S. intelligence believes Iran is working to adapt the Shahab-3 to deliver a nuclear warhead. Subsequent press reports say that U.S. intelligence captured an Iranian computer in mid-2004 showing plans to construct a nuclear warhead for the Shahab.²⁴ Iran denied work on such a warhead, but the IAEA is seeking additional information from Iran on the material.
- *Shahab-4.* In October 2004, Iran announced it had succeeded in extending the range of the Shahab-3 to 1,200 miles, and it added in early November 2004 that it is capable of “mass producing” this “Shahab-4.” An *Agence France Presse* report of February 6, 2006, said an Iranian test of this missile in January 2006 was successful. If Iran’s claims are accurate, large portions of the Near East and Southeastern Europe would be in range, including U.S. bases in Turkey. On March 31, 2006, Iran claimed to have tested a missile, possibly a *Shahab-4*, that Iran says has multiple, separately targeted warheads.
- *BM-25.* On April 27, 2006, Israel’s military intelligence chief said that Iran had received a shipment of North Korean-supplied BM-25 missiles. The missile has a 1,550 mile range and is said to be capable of carrying nuclear warheads. The *Washington Times* appeared to corroborate this reporting in a July 6, 2006, story, which asserted that the North Korean-supplied missile is based on a Soviet-era “SS-N-6” missile.
- *ICBM.* Iran’s asserted progress on missiles would appear to reinforce the concerns of the U.S. intelligence community. In February 2005, DIA Director Jacoby testified that Iran might be capable of developing an intercontinental ballistic missile (3,000 mile range) by 2015,²⁵ but that it was not yet clear whether Iran has decided to field such a system.
- *Other Missiles.* On September 6, 2002, Iran said it successfully tested a 200 mile range “Fateh 110” missile (solid propellant), and Iran said in late September 2002 that it had begun production of the missile.²⁶ Iran also possesses a few hundred short-range ballistic missiles, including the *Shahab-1* (Scud-b), the *Shahab-2* (Scud-C), and the *Tondar-69* (CSS-8).

²⁴ Broad, William and David Sanger. “Relying On Computer, U.S. Seeks to Prove Iran’s Nuclear Aims.” *New York Times*, Nov. 13, 2005.

²⁵ “Greater U.S. Concern About Iran Missile Capability.” Reuters, Mar. 11, 2002.

²⁶ “Iran: New Missile on the Assembly Line.” *New York Times*, Sept. 26, 2002.

Foreign Policy and Support for Terrorist Groups

Iran's foreign policy is a product of the ideology of Iran's Islamic revolution, blended with long-standing national interests. The State Department report on international terrorism for 2005, released April 28, 2006, again stated (as it has for more than a decade) that Iran "remained the most active state sponsor of terrorism" in 2005, again attributing the terrorist activity to the Revolutionary Guard [presumably the Qods Force] and the Intelligence Ministry (Ministry of Information and Security, MOIS).²⁷

Relations With The Persian Gulf States.²⁸ During the 1980s and early 1990s, Iran, through the Qods Force and the MOIS, sponsored Shiite Muslim extremist groups opposed to the Sunni Muslim-led monarchy states of the 6-member Gulf Cooperation Council (GCC; Saudi Arabia, Kuwait, Bahrain, Qatar, Oman, and the United Arab Emirates). These activities appeared to represent an effort by Iran to "export" its Islamic revolution. However, Iran's efforts were unsuccessful and caused the Gulf states to ally closely with the United States. During Khatemi's presidency, Iran reduced support for Gulf Shiite dissident movements there. Some Gulf officials, particularly those in Saudi Arabia, fear that Ahmadinejad is shifting back to a more confrontational stand toward the Gulf states.

- *Saudi Arabia.* Many observers closely watch the relationship between Iran and Saudi Arabia, particularly in recent years, when Saudi Arabia has become alarmed at the emergence of a pro-Iranian government in Iraq and at Iran's ascendancy in Lebanon and among Shiite movements in the region, more generally. Saudi Arabia sees itself as leader of the Sunni Muslim world and views Shiite Muslims as heretical and threatening internally. Currently, Saudi leaders are highly concerned about Iran's nuclear program and the potential for Iranian reaction against the Kingdom should the United States take military action to stop Iran's program. Still, they are receptive to easing tensions with Iran by sending envoys to Tehran and hosting Ahmadinejad in the Kingdom, most recently in early March 2007. During the 1980s, Iran sponsored disruptive demonstrations at annual Hajj pilgrimages in Mecca, some of which were violent, and it funded Saudi Shiite dissident movements. After restoring relations in December 1991 (after a four-year break), and despite the Khobar bombing, Saudi-Iran ties progressed to high-level contacts during Khatemi's presidency, including Khatemi visits there in 1999 and 2002. However, the Saudis blamed a pro-Iranian movement in

²⁷ U.S. Department of State. *Country Reports on Terrorism 2005*. Released Apr. 2006. [<http://www.state.gov/documents/organization/65462.pdf>].

²⁸ See CRS Report RL31533, *The Persian Gulf States: Issues for U.S. Policy, 2006*, by Kenneth Katzman.

the Kingdom, Saudi Hezbollah, for the June 25, 1996, Khobar Towers housing complex bombing, which killed 19 U.S. airmen.²⁹

- UAE concerns about Iran's intentions have not completely recovered from the April 1992 Iranian expulsion of UAE security forces from the Persian Gulf island of Abu Musa, which it and the UAE shared under a 1971 bilateral agreement. (In 1971, Iran, then ruled by the U.S.-backed Shah, seized two other islands, Greater and Lesser Tunb, from the emirate of Ras al-Khaymah, as well as part of Abu Musa from the emirate of Sharjah.) The UAE (particularly the federation capital, Abu Dhabi, which takes a harder line than Dubai, which has a large Persian-speaking community and business ties to Iran) has sought to refer the dispute to the International Court of Justice (ICJ), but Iran insists on resolving the issue bilaterally. The UAE has not pressed the issue vigorously in recent years, although it insists the islands dispute be kept on the agenda of the U.N. Security Council (which it has been since December 1971). The United States, which is concerned about Iran's military control over the islands, supports UAE proposals but takes no formal position on sovereignty.
- Qatar is wary that Iran might seek to encroach on its large North Field (natural gas), which it shares with Iran (called South Pars on Iran's side) and through which Qatar earns large revenues for natural gas exports. Qatar's fears were heightened on April 26, 2004, when Iran's deputy Oil Minister said that Qatar is probably producing more gas than "her right share" from the field and that Iran "will not allow" its wealth to be used by others.
- In 1981 and again in 1996, Bahrain officially and publicly accused Iran of supporting Bahraini Shiite dissidents (the Islamic Front for the Liberation of Bahrain, Bahrain-Hezbollah, and other Bahraini dissident groups) in efforts to overthrow the ruling Al Khalifa family. Bahrain is about 65% Shiite, but its government is dominated by the Sunni Muslim Al Khalifa family. Some Bahraini leaders feared Iran might try to interfere in Bahrain's November 25, 2006, parliamentary election campaign by providing money and other support to Shiite candidates, but this did not appear to be an issue in the elections or their aftermath, even though the main Shiite coalition won almost half of the 40 seats up for the vote.

²⁹ Walsh, Elsa. "Annals of Politics: Louis Freeh's Last Case." *The New Yorker*, May 14, 2001. The June 21, 2001, federal grand jury indictments of 14 suspects (13 Saudis and a Lebanese citizen) in the Khobar bombing indicate that Iranian agents may have been involved, but no indictments of any Iranians were announced. In June 2002, Saudi Arabia reportedly sentenced some of the eleven Saudi suspects held there. The 9/11 Commission final report asserts that Al Qaeda might have had some as yet undetermined involvement in the Khobar Towers attacks.

Iranian Policy in Iraq. The U.S. military ousting of Saddam Hussein appears to have benefitted Iran strategically,³⁰ but U.S.-Iran differences in Iraq have widened since the fall of Saddam. The main thrust of Iran's strategy in post-Saddam Iraq has been to persuade all Shiite Islamist factions in Iraq to work together to ensure political and electoral Shiite dominance of post-Saddam Iraq. Iran has signed a number of agreements with Iraq on transportation, energy cooperation, free flow of Shiite pilgrims, border security, intelligence sharing, and other cooperation. However, U.S. officials assert that, as part of its effort to build influence in Iraq, Iran is providing arms (including highly lethal "explosively forced projectiles," EFPs, that have killed about 170 U.S. soldiers in Iraq) and financing to Shiite militias. The militias are fielded not only by Iran's long-standing Shiite allies but also by the radical cleric Moqtada Al Sadr, and these militias are believed to be involved in sectarian violence. A February 11, 2007, U.S. briefing in Baghdad provided evidence that the EFP's were supplied by Iran.

In an effort to limit opportunities for Iran to act against U.S. interests in Iraq, in November 2005 U.S. Ambassador to Iraq Zalmay Khalilzad said he had received approval from President Bush to begin a diplomatic dialogue with Iranian officials on the issue of Iraqi stability and Iran's aid to Shiite militias. In March 2006, Iranian officials publicly accepted talks on Iraq, but no talks were held, in part because Iran reportedly sought to expand such talks into U.S.-Iran bilateral issues. The issue of talks was revived in the context of recommendations by the "Iraq Study Group" (Recommendations 9, 10, and 11) that the United States open talks with both Iran and Syria to help stabilize Iraq. President Bush's January 10, 2007, speech on Iraq policy stated instead that the United States "... will interrupt the flow of support [to armed groups] from Iran and Syria." As part of the new stance, U.S. forces in Iraq arrested a total of seven Iranian Qods Force members involved in weapons transfers to Iraqi factions in December 2006 and January 2007 (two were arrested in a SCIRI compound and five in an Iranian liaison facility in Kurdish-controlled Irbil). The Iraqi government insisted on, and obtained, the release by U.S. forces of the first two arrested; the case of the other five is still pending. He announced additional military deployments directed mostly at Iran, as discussed later under "containment options."

The Administration might have judged that the military moves strengthened the U.S. position, and the Administration agreed to support a March 10, 2007, regional conference in Iraq attended by Iran and Syria. Further regional talks on Iraq are planned for April 2007. Both Iranian and U.S. officials called the conference constructive, but both denied that substantive bilateral talks took place at the margins of the conference. (For more information, see CRS Report RS22323, *Iran's Influence in Iraq*, by Kenneth Katzman.)

Supporting Palestinian Militant Groups. Iran's support for Palestinian militant groups has long concerned U.S. Administrations, particularly since doing so gives Tehran an opportunity to try to obstruct Israeli-Palestinian peace prospects. Ahmadinejad's various statements on Israel were discussed above, although other Iranian leaders have made similar statements in the past. In the 1990s, Khamene'i

³⁰ This issue is covered in greater depth in CRS Report RS22323, *Iran's Influence in Iraq*, by Kenneth Katzman.

called Israel a “cancerous tumor” and made other statements suggesting that he seeks Israel’s destruction. In December 2001, Rafsanjani said that it would take only one Iranian nuclear bomb to destroy Israel, whereas a similar strike against Iran by Israel would have far less impact because Iran’s population is large. Iran has sometimes openly incited anti-Israel violence, including hosting conferences of anti-peace process organizations (April 24, 2001, and June 2-3, 2002). During his presidency, Khatemi generally refrained from inflammatory statements against Israel and even conversed with Israel’s president at the 2005 funeral of Pope John Paul II. The Iranian Foreign Ministry, considered a bastion of moderates, has repeatedly stated that Iran’s official position is that it would not seek to block any final Israeli-Palestinian settlement but that the peace process is too weighted toward Israel to result in a fair settlement for Palestinians.

The State Department reports on terrorism for 2005 (released on April 28, 2006) accuse Iran of providing “extensive” funding, weapons, and training to Hamas, Palestinian Islamic Jihad (PIJ), the Al Aqsa Martyr’s Brigades, and the Popular Front for the Liberation of Palestine-General Command (PFLP-GC). All are named as foreign terrorist organizations (FTO) by the State Department for their use of violence against Israelis and efforts to undermine the Arab-Israeli peace process. Of these groups, PIJ is closest politically to Iran. State Department terrorism reports since 2002 have said that Iran, possibly via Lebanese Hezbollah, has been encouraging coordination among Palestinian terrorist groups, particularly Hamas and PIJ, since the September 2000 Palestinian uprising.

Some see Iran’s policy further strengthened by Hamas’ victory in the January 25, 2006, Palestinian legislative elections. The victory, and the Saudi-brokered Hamas-Fatah “unity government,” positions Hamas to block any moves toward peace by continuing to refuse to agree to a two-state solution with Israel. However, Hamas activists say they are not politically close to Iran because Iran is mostly Shiite, while Hamas members are Sunni Muslims.³¹ Hamas was reputed to receive about 10% of its budget in the early 1990s from Iran, although since then Hamas has cultivated funding from wealthy Persian Gulf donors and supporters in Europe and elsewhere. Others believe that Hamas now has a stake in running the Palestinian Authority and is less amenable to advice or influence from Iran if such advice conflicts with Palestinian interests. On April 16, 2006, at a conference in Tehran of Palestinian militant leaders, Iran pledged \$50 million to the Hamas-led government to help it weather aid reductions from the United States and Europe. In December 2006, Iran reportedly pledged an additional \$250 million for 2007. Some pro-U.S. Arab states (Qatar, Saudi Arabia, UAE, and Kuwait) have pledged comparable amounts since Hamas took over governance.

Lebanese Hezbollah. Iran has maintained a close relationship with Hezbollah since Hezbollah’s inception in 1982. Hezbollah was formed by Lebanese Shiite clerics sympathetic to Iran’s Islamic revolution, and it was responsible for several acts of anti-U.S. and anti-Israel terrorism in the 1980s and 1990s.³²

³¹ CNN “Late Edition” interview with Hamas co-founder Mahmoud Zahar, Jan. 29, 2006.

³² Hezbollah is believed responsible for the October 1983 bombing of the U.S. Marine (continued...)

Hezbollah's attacks on Israeli forces in southern Lebanon contributed to an Israeli withdrawal in May 2000, but, despite United Nations certification of Israel's withdrawal, Hezbollah maintained military forces along the border. Hezbollah continued to remain armed and outside Lebanese government control, despite U.N. Security Council Resolution 1559 (September 2, 2004) that required its dismantlement. In refusing to disarm, Hezbollah says it was resisting Israeli occupation of small tracts of Lebanese territory (Shib'a Farms).

Neither Israel nor the United States opposed Hezbollah's progressively increased participation in peaceful Lebanese politics. In March 2005, President Bush indicated that the United States might accept Hezbollah as a legitimate political force in Lebanon if it disarms. In the Lebanese parliamentary elections of May - June 2005, Hezbollah expanded its presence in the parliament to 14 out of the 128-seat body. On the strength of this showing, two Hezbollah members were given cabinet seats, positioning Hezbollah to exert greater influence on Lebanese government decisions. As a matter of policy, the United States does not meet with any Hezbollah members, even those in the parliament or cabinet. Hezbollah is a designated FTO, but that designation bars financial transactions by the group and does not specifically ban meeting with members of the group.

Whether or not Iran instigated Lebanese Hezbollah to provoke the July-August 2006 crisis, Iran has long been its major arms supplier. Hezbollah fired Iranian-supplied rockets on Israel's northern towns during the fighting. As part of a package of aid to Hezbollah said to exceed \$100 million per year, reported Iranian shipments to Hezbollah over the past five years have included the "Fajr" (dawn) and Khaybar series of rockets that were fired at the Israeli city of Haifa (30 miles from the border), and over 10,000 Katyusha rockets that were fired at cities within 20 miles of the Lebanese border.³³ Iran also supplied Hezbollah with an unmanned aerial vehicle (UAV), the *Mirsad*, that Hezbollah briefly flew over the Israel-Lebanon border on November 7, 2004, and April 11, 2005; at least three were shot down by Israel during the conflict. On July 14, 2006, Hezbollah apparently hit an Israeli warship with a C-802 sea-skimming missile probably provided by Iran. (See above for information on Iran's acquisition of that weapon from China.) Iran also purportedly provided advice during the conflict; about 50 Revolutionary Guards were in Lebanon (down from about 2,000 when Hezbollah was formed), according to a *Washington Post* report of April 13, 2005) when the conflict began; that number might have increased during the conflict to help Hezbollah operate the Iranian-supplied weaponry.

³² (...continued)

barracks in Beirut, as well as attacks on U.S. Embassy Beirut facilities in April 1983 and September 1984, and for the hijacking of TWA Flight 847 in June 1985 in which Navy diver Robert Stetham was killed. Hezbollah is also believed to have committed the March 17, 1992, bombing of Israel's embassy in that city, which killed 29 people. Its last known terrorist attack outside Lebanon was the July 18, 1994, bombing of a Jewish community center in Buenos Aires, which killed 85. On October 31, 2006, Argentine prosecutors asked a federal judge to seek the arrest of Rafsanjani, former Intelligence Minister Ali Fallahian, former Foreign Minister Ali Akbar Velayati, and four other Iranian officials for this attack.

³³ "Israel's Peres Says Iran Arming Hizbollah." Reuters, Feb. 4, 2002.

Iran has moved to support Hezbollah after the conflict as the movement increasingly (but thus far peacefully) challenges the pro-U.S., pro-Saudi government in Beirut. One press report said Iran is making \$150 million available for Hezbollah to distribute to Lebanese citizens (mostly Shiite supporters of Hezbollah) whose homes were damaged in the Israeli military campaign.³⁴ A State Department counter-terrorism official testified before the House International Relations Committee on September 28, 2006, that Iranian military support to Hezbollah continued after the August 14 ceasefire, which took place in accordance with U.N. Security Council Resolution 1701 (July 31, 2006).³⁵ Hezbollah is demanding at least nine cabinet seats to be positioned to veto government decisions; in November and December 2006, Hezbollah and its allies (six total ministers) resigned from the cabinet and began anti-government demonstrations in an effort to topple it.

Prior to the conflict, in the 109th Congress, two resolutions (H.Res. 101 and S.Res. 82) passed their respective chambers. They urged the EU to classify Hezbollah as a terrorist organization; S.Res. 82 called on Hezbollah to disband its militia as called for in U.N. Security Council Resolution 1559 (September 2, 2004). For more information, see CRS Report RL33566, *Lebanon: The Israel-Hamas-Hezbollah Conflict*, by Jeremy M. Sharp et al.

Central Asia and the Caspian. Iran's policy in Central Asia has thus far emphasized Iran's rights to Caspian Sea resources, particularly against Azerbaijan. That country's population, like Iran's, is mostly Shiite Muslim, but its leadership is secular. In addition, Azerbaijan is ethnically Turkic, and Iran fears that Azerbaijan nationalists might stoke separatism among Iran's large Azeri Turkic population, which demonstrated some unrest in 2006. In July 2001, Iranian warships and combat aircraft threatened a British Petroleum (BP) ship on contract to Azerbaijan out of an area of the Caspian that Iran considers its own. The United States called that action provocative, and it is engaged in border security and defense cooperation with Azerbaijan directed against Iran (and Russia). The United States successfully backed construction of the Baku-Tblisi-Ceyhan oil pipeline, intended in part to provide alternatives to Iranian oil. Along with India and Pakistan, Iran has been given observer status at the Central Asian security grouping called the Shanghai Cooperation Organization (SCO), which contains Russia, China, Kazakhstan, Kyrgyzstan, Uzbekistan, and Tajikistan.

Afghanistan.³⁶ Since the fall of the Taliban, Iran, through aid and reconstruction projects with Afghanistan that total about \$200 million since 2001 (out of a pledged \$500 million), is trying to restore some of its Iran's traditional sway in eastern, central, and northern Afghanistan where Persian-speaking Afghans predominate. It aided Northern Alliance figures that were prominent in the post-Taliban governing coalition, although, since 2004, Iran's influence has waned

³⁴ Shadid, Anthony. "Armed With Iran's Millions, Fighters Turn to Rebuilding." *Washington Post*, Aug. 16, 2006.

³⁵ See CRS Report RL33566, *Lebanon: The Israel-Hamas-Hezbollah Conflict*. Jeremy Sharp, coordinator.

³⁶ See CRS Report RL30588, *Afghanistan: Post-War Governance, Security, and U.S. Policy*, by Kenneth Katzman.

somewhat as its allies, mostly Persian-speaking Afghan minority factions still referred to as the “Northern Alliance,” have been marginalized in Afghan politics. However, Iranian-funded Shiite theological seminaries are being built in Kabul and elsewhere, perhaps an indication of Iran’s continuing efforts to support Afghanistan’s Shiite minority. Iran is said to fear the continuing presence of the about 21,000 U.S. troops in Afghanistan, and Iran has objected to the U.S. use of Shindand air base in western Afghanistan, asserting that it is being used to conduct surveillance on Iran. U.S. aircraft began using the base in September 2004 after the downfall of the pro-Iranian governor of Herat Province, Ismail Khan.

Iran long opposed the regime of the Taliban in Afghanistan on the grounds that it oppressed Shiite Muslim and other Persian-speaking minorities. Iran nearly launched a military attack against the Taliban in September 1998 after Taliban fighters captured and killed nine Iranian diplomats based in northern Afghanistan, and Iran provided military aid to the Northern Alliance factions. Iran, along with the United States, Russia, and the countries bordering Afghanistan, attended U.N.-sponsored meetings in New York (the Six Plus Two group) to try to end the conflict in Afghanistan. During the major combat phase of the post-September 11 U.S.-led war in Afghanistan, Iran offered search and rescue of any downed service-persons and the trans-shipment to Afghanistan of humanitarian assistance. In March 2002, Iran expelled Gulbuddin Hikmatyar, a pro-Taliban Afghan faction leader. Iran froze Hikmatyar’s assets in Iran (January 2005).

Al Qaeda. Iran is not a natural ally of Al Qaeda, largely because Al Qaeda is an orthodox Sunni Muslim organization. However, U.S. officials have said since January 2002 that it is unclear whether Iran has arrested senior Al Qaeda operatives who are believed to be in Iran³⁷ or whether they are at relative liberty within Iran. These figures are purported to include Al Qaeda spokesman Sulayman Abu Ghaith, top operative Sayf Al Adl, and Osama bin Laden’s son, Saad.³⁸ U.S. officials blamed the May 12, 2003 bombings in Riyadh, Saudi Arabia against four expatriate housing complexes on these operatives, saying they have been able to contact associates outside Iran.³⁹ Iran asserted on July 23, 2003, that it had “in custody” senior Al Qaeda figures, but it has refused to extradite them to their countries of origin or to share information about their status.

A February 10, 2007, *Washington Post* report says that some in the Administration want to accuse Iran of violating U.N. Security Council Resolutions 1267 and 1373, which require sharing information on Al Qaeda, as part of the emerging broader U.S. strategy of pressuring Iran militarily, politically, and economically. Hardliners in Iran might want to protect Al Qaeda activists as leverage against the United States and its allies, and some say Iran might want to exchange them for a U.S. hand-over of People’s Mojahedin activists under U.S. control in

³⁷ Keto, Alex. “White House Reiterates Iran Is Harboring Al Qaeda.” *Dow Jones Newswires*, May 19, 2003.

³⁸ Gertz, Bill. “Al Qaeda Terrorists Being Held by Iran.” *Washington Times*, July 24, 2003.

³⁹ Gertz, Bill. “CIA Points to Continuing Iran Tie to Al Qaeda.” *Washington Times*, July 23, 2004.

Iraq. Possibly attempting to show that it is an adversary and not an ally of Al Qaeda, on July 16, 2005, Iran's Intelligence Minister said that 200 Al Qaeda members are in Iranian jails and that Iran had broken up an Al Qaeda cell planning attacks on Iranian students.⁴⁰

The 9/11 Commission report said several of the September 11 hijackers and other plotters, possibly with official help, might have transited Iran, but the report does not assert that the Iranian government cooperated with or knew about the plot. Another bin Laden ally, Abu Musab al-Zarqawi, killed by U.S. forces in Iraq on June 7, 2006, reportedly transited Iran after the September 11 attacks and took root in Iraq, becoming a major insurgent leader there.

U.S. Policy Responses and Legislation

The February 11, 1979 fall of the Shah of Iran, a key U.S. ally, opened a long rift in U.S.-Iranian relations. On November 4, 1979, radical "students" seized the U.S. Embassy in Tehran and held its diplomats hostage until minutes after President Reagan's inauguration on January 20, 1981. The United States broke relations with Iran on April 7, 1980 and the two countries have had only limited official contact since.⁴¹ The United States tilted markedly toward Iraq in the 1980-1988 Iran-Iraq war, including U.S. diplomatic attempts to block conventional arms sales to Iran, providing battlefield intelligence to Iraq⁴² and, during 1987-1988, direct skirmishes with Iranian naval elements in the course of U.S. efforts to protect international oil shipments in the Gulf from Iranian attacks. In one battle on April 18, 1988, Iran lost about a quarter of its larger naval ships in a one-day engagement with the U.S. Navy, including one frigate sunk and another badly damaged. Iran strongly disputed the U.S. assertion that the July 3, 1988, U.S. shoot-down of Iran Air Flight 655 over the Persian Gulf (bound for Dubai, UAE) was an accident.

In his January 1989 inaugural speech, President George H.W. Bush laid the groundwork for a rapprochement, saying that, in relations with Iran, "goodwill begets goodwill," implying better relations if Iran helped obtain the release of U.S. hostages held by Hezbollah in Lebanon. Iran reportedly did assist in obtaining their releases, which was completed in December 1991, but no thaw followed, possibly because Iran continued to back groups opposed to the U.S.-sponsored Middle East peace process, a major U.S. priority.

Upon taking office in 1993, the Clinton Administration moved to further isolate Iran as part of a strategy of "dual containment" of Iran and Iraq. In 1995 and 1996, the Clinton Administration and Congress added sanctions on Iran in response to

⁴⁰ "Tehran Pledges to Crack Down on Militants." Associated Press, July 18, 2005.

⁴¹ An exception was the abortive 1985-1986 clandestine arms supply relationship with Iran in exchange for some American hostages held by Hezbollah in Lebanon (the so-called "Iran-Contra Affair").

⁴² Sciolino, Elaine. *The Outlaw State: Saddam Hussein's Quest for Power and the Gulf Crisis*. New York: John Wiley and Sons, 1991. p. 168.

growing concerns about Iran's weapons of mass destruction, its support for terrorist groups, and its efforts to subvert the Arab-Israeli peace process. The election of Khatemi in May 1997 precipitated a U.S. shift toward engagement; the Clinton Administration offered Iran official dialogue, with no substantive preconditions. In January 1998, Khatemi publicly agreed to "people-to-people" U.S.-Iran exchanges as part of his push for "dialogue of civilizations, but he ruled out direct talks. In a June 1998 speech, then Secretary of State Albright stepped up the U.S. outreach effort by calling for mutual confidence building measures that could lead to a "road map" for normalization of relations. Encouraged by the reformist victory in Iran's March 2000 parliamentary elections, Secretary Albright, in a March 17, 2000, speech, acknowledged past U.S. meddling in Iran, announcing some minor easing of the U.S. trade ban with Iran, and promised to try to resolve outstanding claims disputes. In September 2000 U.N. "Millennium Summit" meetings, Albright and President Clinton sent a positive signal to Iran by attending Khatemi's speeches.

The Bush Administration continued the thrust of Clinton Administration efforts to try to limit Iran's strategic capabilities through international diplomacy and sanctions, and has added to this policy mix selected bilateral diplomacy with Iran. Some Bush Administration officials have sought to place regime change at the center of U.S. Iran policy. In early 2007, the Administration approach shifted somewhat toward strategic and military containment, but the concept of selected bilateral diplomacy was revived in the case of Iraq stabilization. These differing policy trends and options are discussed below. The FY2007 defense authorization law (P.L. 109-364) calls for a report by the Administration on all aspects of U.S. policy and objectives on Iran (and requires the DNI to prepare a national intelligence estimate on Iran).

Containment and Possible Military Action

The Administration appears to believe that Iran's strategic position and its nuclear capability can be contained or even reversed by U.S. conventional capabilities and regional and international alliances.⁴³ Some in the Administration are said to believe that pressuring Iran on multiple fronts could even cause cracks within Iran's regime that could precipitate severe unrest or even collapse. Since mid-2006, the Administration has taken steps to design a containment or pressure strategy for Iran consisting of diplomacy on the nuclear issue, efforts to persuade U.S. allies and their firms not to conduct business with Iran, and military deployments. The military elements are discussed in this section, and additional components of the policy, such as international sanctions, are discussed in the sections below.

The January 10, 2007, statement by President Bush on Iraq signaled that the Administration is now favoring a containment option on Iran. He confirmed in his speech that the United States would send a second U.S. aircraft carrier group into the

⁴³ Yaphe, Judith and Charles Lutes. Reassessing the Implications of a Nuclear Armed Iran. Institute for National Strategic Studies, National Defense University. McNair Paper 69. Aug. 2005.

Gulf,⁴⁴ and he announced the extended deployment of Patriot anti-missile batteries in the Gulf, reportedly in Kuwait and Qatar, as well as increased intelligence sharing with the Gulf states. Other reports say that U.S. aircraft have increased overflights of the Iran-Iraq border. The actions against Iranian agents in Iraq were discussed in the section on Iraq, above. Secretary of Defense, Robert Gates, has said that he sees the U.S. buildup as a means of building leverage against Iran that could be useful in bolstering U.S. diplomacy, and he has repeatedly denied that the military moves are a prelude or part of planning for any U.S. military attack on Iran.

The new U.S. deployments build on pre-existing development of a containment option that took shape in visits to the Gulf states (Saudi Arabia, Kuwait, Bahrain, UAE, Qatar, and Oman) by senior U.S. State Department officials responsible for non-proliferation and political-military affairs in 2005 and 2006. Those visits focused on renewing long-discussed joint efforts to develop missile defense and anti-WMD capabilities. This State Department-led “Gulf Security Initiative” is also intended to enhance the defense capabilities of the Gulf states and is likely to drive new U.S. weapons sales to the Gulf states, such as upgrades to the Patriot (Pac-2) air defense system bought by Saudi Arabia and Kuwait. In October 2006, the United States, four Gulf states, and twenty other nations held naval exercises designed to improve their counter-proliferation capabilities against Iran. These efforts were intended, at least in part, to prevent the Gulf states from accommodating Iran and to reassure them that the United States will protect them from Iran. On the other hand, the Gulf states have sought a “go slow” approach on the Gulf Security Initiative in order not to provoke Iran, which the Gulf states fear will seek retribution against them should U.S. forces draw down in the gulf. In contrast, some officials of allied governments, including Britain, have called for greater cooperation with Iran to curb the movement of smugglers and terrorists across the Persian Gulf.⁴⁵

Pre-Emptive Military Action. As concerns over Iran’s nuclear program have grown, many fear that containment might not succeed and that Iran’s nuclear program should be stopped before Iran possesses a working nuclear weapon. In discussing possible military options against Iran’s nuclear facilities, President Bush has repeatedly maintained that “all options are on the table,”⁴⁶ although Administration officials maintain that current policy is to pursue international diplomacy to compel Iran to change its behavior. A U.S. ground invasion to remove Iran’s regime does not appear to be under serious consideration within the Administration. Most experts believe U.S. forces are spread too thin to undertake such action, including about 145,000 deployed in Iraq, and that U.S. forces would be greeted with hostility.

Some experts believe that limited military action, such as air or missile strikes against suspected nuclear sites should be considered. Proponents of the option argue

⁴⁴ Shanker, Thom. “U.S. and Britain to Add Ships to Persian Gulf in Signal to Iran,” *New York Times*, December 21, 2006.

⁴⁵ “British Commander Calls for More Cooperation With Iran in Persian Gulf.” *BBC*, May 3, 2004.

⁴⁶ Fletcher, Michael and Keith Richburg. “Bush Tries to Allay E.U. Worry Over Iran.” *Washington Post*, Feb. 23, 2005.

that military action could set back Iran's nuclear program because there are only a limited number of key targets, and these targets are known to U.S. planners and could be struck, even those that are hardened or buried.⁴⁷ It could also be argued that the United States could reduce Iran's potential for military or unconventional retaliation by striking not only nuclear facilities but also Iran's conventional military infrastructure, particularly the small ships and coastal missiles Iran has in and around the Strait of Hormuz.

U.S. allies in Europe, not to mention Russia, China, and some U.S. experts, have expressed strong opposition to any military action. Opponents of a strike believe any benefits would be minor, or only temporary, and that the costs of a strike are too high. Some question whether the United States is aware of or militarily able to reach all relevant sites; one former Air Force planner estimates that up to 400 targets would need to be struck, including at least 75 that would require penetrating munitions. Others argue that Iran might retaliate through terrorism or other means, such as shutting down its own oil exports, while others say such action would cause Iran to withdraw from the NPT and refuse any IAEA inspections. Some believe that a U.S. strike would cause the Iranian public to rally around Iran's regime, setting back U.S. efforts to promote change within Iran.

Expressing particular fear that Iran might achieve a nuclear weapons capability, some Israeli officials, including former Defense Minister Shaul Mofaz (October 2004), have refused to rule out the possibility that Israel might strike Iran's nuclear infrastructure. However, several experts doubt that Israel has the capabilities, such as sufficient aerial refueling capacity, that could make such action effective.

A decision to take military action might raise the question of presidential authorities and congressional consultation, and some in Congress have begun to express concern that the Administration might be preparing for military action against Iran, despite Administration denials to that effect. In the 109th Congress, H.Con.Res. 391, introduced by Representative Peter DeFazio on April 26, 2006, called on the President to not initiate military action against Iran without first obtaining authorization from Congress. He has introduced a similar bill, H.Con.Res. 33, in the 110th Congress. Other bills requiring specific congressional authorization for use of force against Iran (or prohibiting U.S. funds for that purpose) include H.J.Res. 14, S.Con.Res. 13, S. 759, and H.R. 770. A provision that sought to bar the Administration from taking military action against Iran without congressional authorization was reportedly taken out of an early draft of an FY2007 supplemental appropriation to fund additional costs for the Iraq and Afghanistan combat.

Regime Change

A major feature of policy in early-mid 2006, this aspect of policy has appeared to since recede, but several high-ranking U.S. officials appear to believe that only an outright change of regime would permanently reduce the threat posed by Iran. There has been some support in the United States for regime change since the 1979

⁴⁷ For an extended discussion of U.S. air strike options on Iran, see Rogers, Paul. *Iran: Consequences Of a War*. Oxford Research Group, February 2006.

Islamic revolution; the United States provided some funding to anti-regime groups, mainly pro-monarchists, during the 1980s.⁴⁸ The Administration's attraction to this option became apparent after the September 11, 2001, attacks, when President Bush's described Iran as part of an "axis of evil" in his January 2002 State of the Union message. President Bush's second inaugural address (January 20, 2005) and his State of the Union messages of February 2, 2005, and January 31, 2006, suggested a clear preference for a change of regime by stating, in the latter speech, that "...our nation hopes one day to be the closest of friends with a free and democratic Iran."

Indications of affinity for this option include increased public criticism of the regime's human rights record — for example supporting General Assembly resolutions condemning Iran's human rights record — as well as the funding of Iranian pro-democracy activists. In 2006, the Administration began increasing the presence of Persian-speaking U.S. diplomats in U.S. diplomatic missions around Iran, in part to help identify and facilitate Iranian participation in U.S. democracy-promotion programs. The Iran unit at the U.S. consulate in Dubai has been enlarged significantly, and new "Iran-watcher" positions have been added to U.S. diplomatic facilities in Baku, Azerbaijan; Istanbul, Turkey; Frankfurt, Germany; London; and Ashkabad, Turkmenistan, all of which have large expatriate Iranian populations and/or proximity to Iran.⁴⁹ An enlarged (six-person) "Office of Iran Affairs" has been formed at State Department, headed by Barbara Leaf, and it is reportedly engaging in contacts with U.S.-based exile groups such as those discussed earlier.⁵⁰

Many question the prospects of U.S.-led Iran regime change, short of all-out U.S. military invasion, because of the weakness of opposition groups, as discussed above, and because of extensive regime surveillance of democracy activists or other internal dissidents. Providing overt or covert support to anti-regime organizations, in the view of many experts, would not make them materially more viable or attractive to Iranians, although there are press reports that a so-called "Iran-Syria Policy and Operations Group" within the Administration might be considering recommending such covert aid, among other measures.⁵¹ Others argue that reformist groups such as students, women, labor leaders, intellectuals, and others might be able to galvanize regime change unexpectedly; all of these groups have conducted various small protests during the past few years.

⁴⁸ CRS conversations with U.S. officials responsible for Iran policy. 1980-1990. After a period of suspension of such assistance, in 1995, the Clinton Administration accepted a House-Senate conference agreement to include \$18-\$20 million in funding authority for covert operations against Iran in the FY1996 Intelligence Authorization Act (H.R. 1655, P.L. 104-93), according to a *Washington Post* report of Dec. 22, 1995. The Clinton Administration reportedly focused the covert aid on changing the regime's behavior, rather than its overthrow.

⁴⁹ Stockman, Farah. "'Long Struggle' With Iran Seen Ahead." *Boston Globe*, March 9, 2006.

⁵⁰ Weisman, Steven. "U.S. Program Is Directed At Altering Iran's Politics." *New York Times*, April 15, 2006.

⁵¹ Stockman, Farah. "US Unit Works Quietly to Counter Iran's Sway," *Boston Globe*, January 2, 2007.

Congress and Regime Change. The State Department has used funds provided in recent appropriations to support pro-democracy activists. The funds represent congressional sentiment for efforts to change Iran's regime. The policy is discussed in the State Department report "Supporting Human Rights and Democracy: U.S. Record 2005-2006," released April 6, 2006. Iran asserts that such steps represent a violation of the 1981 "Algiers Accords" that settled the Iran hostage crisis and provide for non-interference in each others' internal affairs. The following have been appropriated:

- The FY2004 foreign operations appropriation (P.L. 108-199) earmarked "notwithstanding any other provision of law" up to \$1.5 million for "making grants to educational, humanitarian and non-governmental organizations and individuals inside Iran to support the advancement of democracy and human rights in Iran." The State Department Bureau of Democracy and Labor (DRL)⁵² gave \$1 million of those funds to the IHDC organization, mentioned earlier. The remaining \$500,000 was distributed through the National Endowment for Democracy (NED).
- The conference report on the FY2005 foreign aid appropriations (P.L. 108-447) provided a further \$3 million for these efforts. The State Department put out a solicitation for proposals for similar projects to be funded in 2005. The winning grantees were not announced by DRL to protect the identities of the grantees, according to U.S. diplomats. DRL had said that priority areas were political party development, media development, labor rights, civil society promotion, and promotion of respect for human rights.⁵³
- The conference report (H.Rept. 109-265) on the regular FY2006 foreign aid appropriation (P.L. 109-102) appropriated up to \$10 million in democracy promotion funds for use in Iran. The funds were drawn from a "Democracy Fund" as well as from the Middle East Partnership Initiative (MEPI).
- On February 16, 2006, the Administration requested \$75 million for democracy promotion in Iran as part of a supplemental FY2006 appropriation. In congressional action, the FY2006 supplemental appropriation (H.R. 4939, P.L. 109-234) provided a total of \$66.1 million, broken down as follows: \$20 million for democracy programs (\$5 million more than requested); \$5 million for public diplomacy directed at the Iranian population (the amount requested); \$5 million for cultural exchanges (the amount requested); and \$36.1 million for Voice of America-TV and "Radio *Farda*" broadcasting (\$13.9 million less than requested). Of these funds, Radio *Farda*

⁵² The State Department has determined that, because Iran is ineligible for U.S. aid, Iran democracy promotion funds cannot be channeled through the Middle East Partnership Initiative, because those are Economic Support Funds, ESF, and cannot be used in Iran.

⁵³ Briefing by DRL representatives for congressional staff, May 9, 2005.

will receive \$14.7 million. In early September 2006, the Administration said it wanted to use the \$5 million in cultural exchange funds to invite about 200 young Iranian professionals and foreign language teachers.

- The broadcasting funds are to be provided through the Broadcasting Board of Governors, an apparent rebuff to the idea of funding Iranian exile broadcasts. Broadcasting to Iran began under Radio Free Europe/Radio Liberty (RFE/RL), in partnership with the VOA, in October 1998.⁵⁴ It was renamed Radio *Farda* (“Tomorrow” in Farsi) in December 2002. It now broadcasts 24 hours per day, up from 8 previously, and costs about \$7 million per year. VOA Persian language services (radio and TV) also operate to Iran at a combined cost of about \$10 million per year. VOA-TV began on July 3, 2003, and now is broadcasting to Iran 12 hours a day, up from four hours previously.
- No funds for this purpose were requested for FY2007, and FY2007 foreign aid appropriations legislation contained no new funds for it. Another \$75 million in democracy promotion funds were requested by the Administration for FY2008.

Iran Freedom Support Act (H.R. 282, S. 333, and H.R. 6198).

Legislation in the 109th Congress exemplified the preference of some Members for regime change in Iran by authorizing funding for democracy promotion, among other provisions. In the 109th Congress, H.R. 282, introduced by Representative Ros-Lehtinen, passed the House on April 26, 2006, by a vote of 397-21. A companion, S. 333, was introduced by Senator Santorum. The Administration supported the democracy-promotion sections of these bills, while opposing provisions on economic sanctions, as discussed below. Major provisions of the bills were included in H.R. 6198, which was introduced on September 27, 2006, passed by both chambers, and signed September 30, 2006 (P.L. 109-293). Entitled the Iran Freedom Support Act, it authorizes funds (no specific dollar amount) for Iran democracy promotion.

Engagement

To a degree greater than in previous Administrations, the Bush Administration has pursued some direct engagement with Iran (on Afghanistan and Iraq) and left room for broader multilateral dialogue if Iran curbs its nuclear program. Some believe the Administration position is based on a view that the United States should exhaust all possible options to curb Iran’s nuclear program, including dialogue. Others believe the Administration position on talks came about after Administration advocates of regime change and other harder line approaches were persuaded that the United States needed to garner international support on Iran by demonstrating it is willing to fully exhaust all options for a peaceful resolution of the nuclear issue.

⁵⁴ The service began when Congress funded it at \$4 million in the FY1998 Commerce/State/Justice appropriation (P.L. 105-119). It was to be called Radio Free Iran but was never formally given that name by RFE/RL.

As noted above, in May 2006 the Administration offered to join multilateral talks with Iran if Iran were to meet nuclear preconditions. However, U.S. officials have not, to date, expressed support for a direct U.S.-Iran bilateral dialogue on all outstanding issues of U.S. concern. In addition, as noted above, the Administration at first appeared to reject the recommendation of the Iraq Study Group to undertake multilateral diplomacy with Iran (and Syria) to stabilize Iraq, but then decided that participating in such a multilateral process might benefit the U.S. mission in Iraq. An amendment by Senator Biden (adopted June 2006) to the FY2007 defense authorization bill (P.L. 109-364) supported the Administration's May 2006 offer to join nuclear talks with Iran.

No substantive direct U.S.-Iran talks on *any* issue have taken place since May 2003, when the United States broke off a dialogue with Iran following the May 12, 2003, terrorist bombing in Riyadh. At that time, the United States and Iran publicly acknowledged that they were conducting direct talks in Geneva on both Afghanistan and Iraq,⁵⁵ the first confirmed direct dialogue between the two countries since the 1979 revolution. However, U.S. officials rebuffed a reported overture from Iran just before the May 12, 2003, Riyadh bombing to negotiate all outstanding U.S.-Iran issues as part of a so-called "grand bargain" that has been discussed by outside experts and reported in various press articles. The *Washington Post* reported on February 14, 2007 ("*2003 Memo Says Iranian Leaders Backed Talks*"), that the Swiss Ambassador to Iran in 2003, Tim Guldemann, had informed U.S. officials of a comprehensive Iranian proposal for talks with the United States.

The United States briefly resumed some contacts with Iran in December 2003 to coordinate U.S. aid to victims of the December 2003 earthquake in Bam, Iran, including a reported offer to send a high-level delegation to Iran. However, Iran rebuffed that offer. The United States and Iran did participate in regional meetings in 2004 on the issue of stabilizing Iraq, including a meeting in Egypt. President Bush did not respond to a direct letter by Ahmadinejad in May 2006, and there was no official U.S. response to a November 29, 2006, Ahmadinejad open letter to the American people. As part of the U.S. declared openness to talk with Iran if it complies on nuclear issues, the Administration indicated that it considers Iran a great nation and respects its history; such themes were prominent in speeches by President Bush at the Merchant Marine Academy on June 19, 2006, and his September 18, 2006, speech to the U.N. General Assembly.

International and Multilateral Sanctions

With the February 21, 2007, deadline for Iran's nuclear compliance expired, an immediate question is whether, and if so what, further international sanctions might be imposed on Iran. The following represent sanctions that the Security Council might impose, beyond those enacted by Resolution 1737, as discussed above in the section on Iran's nuclear program. Administration officials say these or other sanctions might also be considered by a "coalition" of countries, outside Security Council authorization, if the Security Council does not act. Some were proposed in

⁵⁵ Wright, Robin. "U.S. In 'Useful' Talks With Iran." *Los Angeles Times*, May 13, 2003.

a Senate resolution (S.Res. 351) introduced by Senator Evan Bayh in the 109th Congress.

- *Mandating Reductions in Diplomatic Exchanges with Iran or Limiting Travel by Iranian Officials.* Such measures were not made mandatory in Resolution 1737, and Russia and China reportedly continue to impose a mandatory ban on travel by Iranian WMD officials. Similar restrictions were imposed on the Taliban government of Afghanistan in 1999 in response to its harboring of Al Qaeda leadership. Another possibility is limitations on sports or cultural exchanges with Iran, such as Iran's participation in the World Cup soccer tournament or the Olympics. However, many experts oppose using sporting events to accomplish political goals.
- *Banning International Flights to and from Iran.* This sanction was imposed on Libya in response to the finding that its agents were responsible for the December 21, 1988, bombing of Pan Am 103.
- *A Ban on Exports to Iran of Refined Oil Products or of Other Products.* Some countries that supply such goods and services to Iran might oppose this sanction. A gas exports ban, a major feature of the 2006 Bayh resolution (S.Res. 351), would almost certainly hurt Iran's economy because Iran lacks refinery capacity to meet demand and must import gasoline.
- *Financial Sanctions, Such as a Freeze on Iran's Financial Assets Abroad or on the Assets of Designated Iranian Officials, or Limiting Lending to Iran by International Financial Institutions.* Resolution 1737 only freezes the assets of 10 Iranian entities and 12 individuals named in an Annex to the Resolution. Virtually all U.S. allies that conduct extensive trade with Iran, including Japan and most of the EU states, oppose extensive sanctions on trade in civilian goods with Iran. However, as discussed below, some European banks have responded to U.S. Treasury Department entreaties to cut banking ties to Iran.
- *Imposing a Worldwide Ban on Sales of Arms to Iran.* Such a sanction reportedly is incurring Security Council opposition from Russia and China, which have been Iran's key arms suppliers in recent years.
- *Imposing an Intrusive U.N.-led WMD Inspections Regime.* The objective of such an inspections program could be to enforce a Security Council decision to halt uranium enrichment, although Iran is likely to resist such a program and reduce its effectiveness.
- *Imposing an International Ban on Purchases of Iranian Oil or Other Trade/Ban on International Investment in Iran's Energy Sector.* These are widely considered the most sweeping of sanctions that might be imposed, and would likely be considered in the Security

Council only if other sanctions are imposed but fail. However, the sanction is unlikely to be imposed because world oil prices remain nearly \$60 per barrel.

European/Japan Policy on Sanctions, Lending, and Trade Agreements. Although the United States and its allies are now mostly aligned with the United States on Iran policy, some philosophical and policy differences might complicate U.S. efforts to establish a stricter international or multilateral sanctions regime on Iran, either within or outside Security Council action. Most U.S. allies still favor engagement and incentives — not just economic or political punishments — as an important tool to change Iran’s behavior. During 1992-1997, when the United States was tightening its own sanctions against Iran, the European Union (EU) countries maintained a policy of “critical dialogue” with Iran, and the EU and Japan refused to join the 1995 U.S. trade and investment ban on Iran. The European dialogue with Iran was suspended following the April 1997 German terrorism trial (“Mykonos trial”) that found high-level Iranian involvement in assassinating Iranian dissidents in Germany. After Khatemi became president, the EU-Iran dialogue resumed (May 1998), and he made state visits to most major European countries as well as Japan.

More recently, as Iran has defied the international community on nuclear issues, the European countries and Japan appear to be agreeing to link progress on the nuclear issue to trade agreements. In December 2002, as part of its engagement strategy, the EU (European Commission) first began negotiations with Iran on a “Trade and Cooperation Agreement” (TCA) that would lower the tariffs or increase quotas for Iranian exports to the EU countries. However, revelations about Iran’s undeclared nuclear activity caused a suspension of the talks in July 2003. The TCA talks resumed in January 2005 in concert with the “Paris Agreement,” but after the eighth round of negotiations on July 12-13, 2005, the talks were suspended after the August 2005 breakdown of the Paris Agreement. During the active period of such talks, there were working group discussions focused not only on the TCA terms and proliferation issues but also on Iran’s human rights record, Iran’s efforts to derail the Middle East peace process, Iranian-sponsored terrorism, counter-narcotics, refugees, migration issues, and the Iranian opposition PMOI. A further indicator that trade and investment agreements with Iran are on hold pending a nuclear solution is the apparent decision of Japan’s Inpex to cut its planned \$2 billion investment to develop Iran’s large (26 billion barrels) onshore Azadegan oil field to a stake of only about 10% in that project.

Similarly, Iran is unlikely to obtain membership in the World Trade Organization (WTO) until there is progress on the nuclear issue. Iran first attempted to apply to join the WTO in July 1996. On 22 occasions after that, representatives of the Clinton and then the Bush Administration blocked Iran from applying (applications must be by consensus of the 148 members). As discussed above, as part of an effort to assist the EU-3 nuclear talks with Iran, the Administration announced on March 11, 2005, that it would drop opposition to Iran’s applying for WTO membership. At a WTO meeting in May 2005, no opposition to Iran’s application was registered by any state, and Iran formally began accession talks.

U.S. officials are also urging European and other creditors not to extend new export credits to Iran, although, U.S. allies reportedly are reluctant to jeopardize the substantial civilian trade their firms do with Iran.⁵⁶ Although there are indications that the EU countries might now be willing to limit official credits, to date, the EU countries have maintained that trade in purely civilian goods is not banned by any U.N. resolution and that exporters of such goods should not be penalized. The EU position appears to have softened since the 1990s, when European and Japanese creditors — over U.S. objections — rescheduled about \$16 billion in Iranian debt during 1994-1995. These countries (governments and private creditors) rescheduled the debt bilaterally, in spite of Paris Club rules that call for multilateral rescheduling. Iran's improved external debt led most European export credit agencies to restore insurance cover for exports to Iran, as shown in **Table 1, *Selected Economic Indicators***, earlier in this report. In July 2002, Iran tapped international capital markets for the first time since the Islamic revolution, selling \$500 million in bonds to European banks.

The EU and Japan appear to have also made new international lending to Iran contingent on Iran's response to international nuclear demands, although they have differed with the United States in the past on providing such loans. Acting under provisions of successive foreign aid laws, in 1993 the United States voted its 16.5% share of the World Bank against loans to Iran of \$460 million for electricity, health, and irrigation projects, but the loans were approved. To block that lending, the FY1994-FY1996 foreign aid appropriations (P.L. 103-87, P.L. 103-306, and P.L. 104-107) cut the amount appropriated for the U.S. contribution to the Bank by the amount of those loans. The legislation contributed to a temporary halt in new Bank lending to Iran. (A provision of H.R. 1400, introduced in the 110th Congress, would impose a similar restriction.) However, by 1999, Iran's moderating image had led the World Bank to consider new loans over U.S. opposition. In May 2000, the United States' allies outvoted the United States to approve \$232 million in loans for health and sewage projects. During April 2003-May 2005, a total of \$725 million in loans were approved for environmental management, housing reform, water and sanitation projects, and land management projects, in addition to a \$400 million in loans for earthquake relief.

U.S. Banking Actions. The U.S. Treasury and State Departments have begun using U.S. financial regulations — as well as the new authorities in Resolution 1737 — to pressure European banks not to do business with Iran. On December 20, 2005, the Treasury Department had fined Dutch bank ABN Amro \$80 million for failing to fully report the processing of financial transactions involving Iran's Bank Melli (and another bank partially owned by Libya). In 2004, the Treasury Department fined UBS \$100 million for the unauthorized movement of U.S. dollars to Iran and other sanctioned countries, and it and three other European banks, HSBC (Britain), Credit Suisse (Switzerland), and Germany's Commerzbank A.G, have stopped dollar transactions from within Iran or pursuit of new business in Iran. On September 8, 2006, the Treasury Department said it would bar U.S. banks from handling any indirect transactions ("U-turn transactions, meaning transactions with

⁵⁶ King, Neil. "U.S. Bid to Limit Iran Gets Wary Response." *Wall Street Journal*, Dec. 29, 2006.

non-Iranian foreign banks that are handling transactions on behalf of an Iranian bank) with Iran's state-owned Bank Saderat, which the Administration accuses of providing funds to Hezbollah.⁵⁷ The restrictions on financing are, according to Iranian and outside observers, making it more difficult to fund energy industry and other projects in Iran.

U.S. Sanctions

Any international or multilateral sanctions would add to the wide range of U.S. sanctions in place since the November 4, 1979, seizure of the U.S. hostages in Tehran.⁵⁸ Some experts believe that U.S. sanctions have slowed Iran's economy, forcing it to curb spending on weapons purchases, but others believe that because the sanctions are not multilateral, the U.S. sanctions have had only marginal effect.⁵⁹

Terrorism/Foreign Aid Sanctions. In January 1984, following the October 1983 bombing of the U.S. Marine barracks in Lebanon (believed perpetrated by Hezbollah) Iran was added to the "terrorism list." The list was established by Section 6(j) of the Export Administration Act of 1979, sanctioning countries determined to have provided repeated support for acts of international terrorism.

- The terrorism list designation bans direct U.S. financial assistance (Foreign Assistance Act, FAA) and arms sales (Arms Export Control Act), restricts sales of U.S. dual use items (Export Administration Act), and requires the United States to vote to oppose multilateral lending to the designated countries (Anti-Terrorism and Effective Death Penalty Act of 1996, P.L. 104-132). Waivers are provided under these laws, but successive foreign aid appropriations laws since the late 1980s ban direct assistance to Iran (loans, credits, insurance, Eximbank credits) without providing for a waiver. In January 2007, Senator Kerry called for an investigation into reports that buyers for Iran and China are able to acquire spare parts to U.S.-made fighter jets, parts that were sold to other countries as surplus.
- Section 307 of the FAA (added in 1985) names Iran as unable to benefit from U.S. contributions to international organizations, and require proportionate cuts if these institutions work in Iran. No waiver is provided for.
- Under the Anti-Terrorism and Effective Death Penalty Act, the President is required to withhold U.S. foreign assistance to any country that provides to a terrorism list country foreign assistance or arms. Waivers are provided for.

⁵⁷ Kessler, Glenn. "U.S. Moves to Isolate Iranian Banks." *Washington Post*, Sept. 9, 2006.

⁵⁸ On Nov. 14, 1979, President Carter declared a national emergency with respect to Iran, renewed every year since 1979.

⁵⁹ "The Fight Over Letting Foreigners Into Iran's Oilfields." *The Economist*, July 14, 2001.

- U.S. regulations do not bar disaster relief and the United States donated \$125,000, through relief agencies, to help victims of two earthquakes in Iran (February and May 1997), and another \$350,000 worth of aid to the victims of a June 22, 2002 earthquake. (The World Bank provided some earthquake related lending as well.) The United States provided \$5.7 million in assistance (out of total governmental pledges of about \$32 million, of which \$17 million have been remitted) to the victims of the December 2003 earthquake in Bam, Iran, which killed as many as 40,000 people and destroyed 90% of Bam's buildings. The United States flew in 68,000 kilograms of supplies to Bam, flown in by U.S. military flights.

Proliferation Sanctions. Iran is prevented from receiving technology from the United States under relevant anti-proliferation laws,⁶⁰ but several proliferation laws are unique to Iran. The Iran-Iraq Arms Nonproliferation Act (P.L. 102-484) requires denial of license applications for exports to Iran of dual use items, and imposes sanctions on foreign countries that transfer to Iran “destabilizing numbers and types of conventional weapons,” as well as WMD technology. The Iran Nonproliferation Act (P.L. 106-178) authorizes sanctions on foreign entities that assist Iran's WMD programs. It bans U.S. extraordinary payments to the Russian Aviation and Space Agency in connection with the international space station unless the President can certify that the agency or entities under its control had not transferred any WMD or missile technology to Iran within the year prior.

The provision contains certain exceptions to ensure the safety of astronauts and for certain space station hardware. The provision could complicate U.S. efforts to keep U.S. astronauts on the station beyond April 2006, when Russia plans to start charging the United States for transporting them on its Soyuz spacecraft. The House version of S. 1713, legislation to allow continued U.S. access to the station, took that step and extended INA sanctions provisions to Syria; it was accepted by the Senate (P.L. 109-112, November 22, 2005); the law is now called the Iran-Syria Non-Proliferation Act (ISNA).⁶¹ A law enacted in the 109th Congress to extend the Iran Sanctions Act (ISA), H.R. 6198 (P.L. 109-293), made WMD and advanced conventional weapons exports to Iran sanctionable (see further below).

Reflecting a Bush Administration decision to impose sanctions for violations, the Bush Administration has sanctioned numerous entities as discussed below. These entities were sanctioned under the INA, the Iran-Iraq Arms Non-Proliferation Act of 1992 (P.L. 102-484), and another law, the Chemical and Biological Warfare Elimination Act of 1991, for sales to Iran:

⁶⁰ Such laws include the Atomic Energy Act of 1954 and the Energy Policy Act of 2005 (P.L. 109-58).

⁶¹ Provisions were made applicable also to North Korea under legislation in the 109th Congress.

- In May 2003, the Administration sanctioned a Chinese industrial entity, Norinco, for allegedly Iran selling missile technology.
- On July 4, 2003, an additional Chinese entity, the Taiwan Foreign Trade General Corporation, was sanctioned under the INA.
- On September 17, 2003, the Administration imposed sanctions on a leading Russian arms manufacturer, the Tula Instrument Design Bureau, for allegedly selling laser-guided artillery shells to Iran.
- On April 7, 2004, the Administration announced sanctions on 13 entities under the INA, including companies from Russia, China, Belarus, Macedonia, North Korea, UAE, and Taiwan.
- On September 29, 2004, fourteen entities were sanctioned under the INA from China, North Korea, Belarus, India (two nuclear scientists, Dr. Surendar and Dr. Y.S.R. Prasad), Russia, Spain, and Ukraine.
- In December 2004 and January 2005, INA sanctions were imposed on fourteen more entities, mostly from China, for alleged supplying of Iran's missile program. Many, such as North Korea's Changgwang Sinyong and China's Norinco and Great Wall Industry Corp, have been sanctioned several times previously. Other entities sanctioned included North Korea's Paeksan Associated Corporation, and Taiwan's Ecoma Enterprise Co.
- On December 26, 2005, the Administration sanctioned another nine entities, including those from China (Norinco included yet again), India (two chemical companies), and Austria. At the same time, sanctions against Dr. Surendar of India (see September 29, 2004) were ended, presumably because of information exonerating him of helping Iran.
- On June 13, 2006, the Treasury Department designated four Chinese companies, under Executive order 13382 (June 29, 2005),⁶² as proliferators of WMD to Iran. The four companies are Beijing Alite Technologies, LIMMT Economic and Trading Company, China Great Wall Industry Corp, and China National Precision Machinery Import/Export Corp.
- On August 4, 2006, seven entities were sanctioned under ISNA: two Indian chemical companies (Balaji Amines and Prachi Poly Products); two Russian firms (Rosobornexport and aircraft manufacturer Sukhoi); two North Korean entities (Korean Mining and Industrial Development, and Korea Pugang Trading); and one Cuban entity (Center for Genetic Engineering and Biotechnology). The decision to sanction these entities was reported a day after the

⁶² [<http://www.whitehouse.gov/news/releases/2005/06/print/20050629.html>].

House voted down a proposal to condition a U.S.-India civilian nuclear deal (H.R. 5682, passed by the House on July 26, 2006) on India's cooperation with U.S. policy against Iran.

- In January 2007, the Administration imposed sanctions against four Russian (Rosobornesksport, Tula Design, and Komna Design Office of Machine Building, and Alexei Safonov), three Chinese (Zibo Chemical, China National Aerotechnology, and China National Electrical), and one North Korean entity (Korean Mining and Industrial Development) for WMD or advanced weapons sales to Iran (and Syria).

As with previous years' appropriations, the FY2006 foreign aid appropriation (P.L. 109-102) punished the Russian Federation for assisting Iran by withholding 60% of any U.S. assistance to the Russian Federation unless it terminates technical assistance to Iran's nuclear and ballistic missiles programs. House- and Senate - passed FY2007 foreign aid legislation (H.R. 5522) contain similar provisions. A provision of H.R. 1400 would restrict nuclear cooperation with any country that assists Iran's WMD or advanced conventional weapons capabilities.

Another provision, Executive Order 13382, allows the President to block the assets of proliferators of weapons of mass destruction (WMD) and their supporters under the authority granted by the International Emergency Economic Powers Act (IEEPA, 50 U.S.C. 1701 et seq.), the National Emergencies Act (50 U.S.C. 1601 et seq.), and Section 301 of Title 3, United States Code. The Iranian entities below have been designated under E.O. 13382 for allegedly providing assistance to Iran's nuclear and ballistic missile programs since June 2005:

- Shahid Hemmat Industrial Group (June 2005),
- Shahid Bakeri Industrial Group (June 2005),
- Atomic Energy Organization of Iran (June 2005),
- Novin Energy Company (January 2006),
- Mesbah Energy Company (January 2006),
- Sanam Industrial Group (July 2006),
- Ya Mahdi Industries Group (July 2006), and
- Bank Sepah (January 2007).

Counter-Narcotics. In February 1987, Iran was first designated as a state that failed to cooperate with U.S. anti-drug efforts or take adequate steps to control narcotics production or trafficking. U.S. and U.N. Drug Control Program (UNDCP) assessments of drug production in Iran prompted the Clinton Administration, on December 7, 1998, to remove Iran from the U.S. list of major drug producing countries. The decision exempted Iran from the annual certification process that kept drug-related U.S. sanctions in place on Iran. According to several governments, over the past few years Iran has augmented security on its border with Afghanistan in part to prevent the flow of narcotics from that country into Iran. Britain has sold Iran some night vision equipment and body armor for the counter-narcotics fight. Iran also reportedly is supporting the international counter-narcotics effort in Afghanistan by providing aid to Afghan farmers to grow crops other than poppy.

Trade Ban. On May 6, 1995, President Clinton issued Executive Order 12959 banning U.S. trade and investment in Iran. This followed an earlier March 1995 executive order barring U.S. investment in Iran's energy sector. The trade ban was partly intended to blunt criticism that U.S. trade with Iran made U.S. appeals for multilateral containment of Iran less credible. Each March since 1995, the U.S. Administration has renewed a declaration of a state of emergency that triggered the March 1995 investment ban.⁶³ Some modifications to the trade ban since 1999 account for the small trade that does exist between the United States and Iran. The trade ban would likely have to be eased further to provide the incentives promised in the six power package offered to Iran. The following conditions and modifications, as administered by the Office of Foreign Assets Control (OFAC) of the Treasury Department, apply.

- Some goods related to the safe operation of civilian aircraft may be licensed for export to Iran, and in December 1999, the Clinton Administration allowed the repair of engine mountings on seven Iran Air 747s (Boeing). In late September 2006, the Bush Administration informed Congress that, in the interests of safe operations of civilian aircraft, it intended to permit a sale by General Electric of Airbus engine spare parts to be installed on several Iran Air passenger aircraft (by European airline contractors).
- OFAC regulations do not permit U.S. firms to negotiate investment deals with Iran or to trade Iranian oil overseas.
- Since April 1999, commercial sales of food and medical products to Iran have been allowed, on a case-by-case basis and subject to OFAC licensing. Private letters of credit can be used to finance approved sales, but no U.S. government credit guarantees are available and U.S. exporters are not permitted to deal directly with Iranian banks. The FY2001 agriculture appropriations law (P.L. 106-387) contained a provision banning the use of official credit guarantees for food and medical sales to Iran and other countries on the U.S. terrorism list, except Cuba, although allowing for a presidential waiver to permit such credit guarantees. Neither the Clinton Administration nor the Bush Administration provided the credit guarantees. Iran says the lack of credit makes U.S. sales, particularly of wheat, uncompetitive.
- In April 2000, the trade ban was further eased to allow U.S. importation of Iranian nuts, dried fruits, carpets, and caviar. The United States was the largest market for Iranian carpets before the 1979 revolution, but U.S. anti-dumping tariffs imposed on Iranian pistachio nut imports in 1986 (over 300%) dampened imports of that product. In January 2003, the tariff on roasted pistachios was

⁶³ An August 1997 amendment to the trade ban (Executive Order 13059) prevented U.S. companies from knowingly exporting goods to a third country for incorporation into products destined for Iran.

lowered to 22% and on raw pistachios to 163%. In December 2004, U.S. sanctions were further modified to allow Americans to freely engage in ordinary publishing activities with entities in Iran (and Cuba and Sudan). H.R. 1400, introduced in the 110th Congress, would reimpose the ban on these imports.

- Subsidiaries of U.S. firms are not barred from dealing with Iran, as long as the subsidiary has no operational relationship to the parent company. Some U.S. companies have come under scrutiny for dealings by their subsidiaries with Iran. On January 11, 2005, Iran said it had let a contract to the U.S. company Halliburton, and an Iranian company, Oriental Kish, to drill for gas in Phases 9 and 10 of South Pars. Under the deal, Halliburton reportedly is to provide \$30 million to \$35 million worth of services per year through Oriental Kish. This leaves unclear whether Halliburton would be considered in violation of the U.S. trade and investment ban or the Iran Sanctions Act (ISA),⁶⁴ because the dealings apparently involved a subsidiary of Halliburton. Because of criticism, Halliburton announced on January 28, 2005, that it would withdraw all employees from Iran and end its pursuit of future business opportunities there.⁶⁵ One week later, GE announced it would seek no new business in Iran. According to press reports, GE has been selling Iran equipment and services for hydroelectric, oil and gas services, and medical diagnostic projects through Italian, Canadian, and French subsidiaries. The trade ban appears to bar any Iranian company from buying a foreign company that has U.S. units.
- In relevant legislation, a provision of a bill in the 109th Congress, Section 102 of H.R. 282, was removed from an amended version that was enacted (P.L. 109-293). In the 110th Congress, a provision of H.R. 957 and of H.R. 1400 would consider parent corporations of U.S. subsidiary firms overseas to have violated the trade ban if they create or use a subsidiary to undertake such trade with Iran.
- The trade ban permits U.S. companies to apply for licenses to conduct “swaps” of Caspian Sea oil with Iran, but, as part of a U.S. policy to route Central Asian energy around Iran (and Russia), a Mobil Corporation application to do so was denied in April 1999.
- In May 2002 Moody’s stopped its credit ratings service for Iran’s government bonds on the grounds that performing this service might violate the U.S. trade ban.

⁶⁴ “Iran Says Halliburton Won Drilling Contract.” *Washington Times*, Jan. 11, 2005.

⁶⁵ Boyd, Roderick. “Halliburton Agrees to Leave Iran, Thompson Says.” *New York Sun*, Mar. 25, 2005.

The Iran Sanctions Act (ISA). The Iran Sanctions Act (P.L. 104-172, August 5, 1996), as amended, sanctions foreign (or U.S.) investment of more than \$20 million in one year in Iran or Libya's energy sector. It was to sunset on August 5, 2001, but it was renewed for another five years (P.L. 107-24, August 3, 2001). However, in order to prevent its expiration and allow time for broader ISA-related legislation to be considered, one bill extended ISA until September 29, 2006 (P.L. 109-267). Broader ISA-related bills were H.R. 282, which was passed by the House on April 26, 2006; a Senate companion measure, S. 333; and H.R. 6198, the latter of which was passed and then signed on September 30, 2006 (P.L. 109-293). This "Iran Freedom Support Act," discussed above, extends ISA until December 31, 2011, and drops Libya from the law, and is now called the Iran Sanctions Act. Like H.R. 282 and S. 333, it codifies existing Iran sanctions, makes exports to Iran of WMD or advanced conventional weapons technology sanctionable, and recommends (but does not mandate) a 180-day time limit for the Administration to determine whether a project violates ISA. As noted above, it also authorizes additional funding for promoting democracy in Iran.

No projects have actually been sanctioned under ISA, and numerous investment agreements with Iran since its enactment have helped Iran slow deterioration of its energy export sector. However, Iran's oil minister said in December 2006 that the nuclear dispute between Iran and the international community had caused some foreign banks to shy away from financing energy projects in Iran. One major project that Iran believes would help its gas export sector considerably is a proposed gas pipeline from Iran through Pakistan, to India. (See CRS Report RS20871, *The Iran Sanctions Act*, by Kenneth Katzman.)

In the 110th Congress, H.R. 1400 would remove the Administration's ability to waive application of sanctions under ISA. However, the bill would not impose on the Administration a time limit to determine whether a project is sanctionable. Both it and another bill, H.R. 957, would clarify the definitions of sanctionable entities to include official credit guarantee agencies, such as France's COFACE and Germany's Hermes. Another bill, H.R. 1357, would require government pension funds to divest of shares in firms that have made ISA-sanctionable investments in Iran's energy sector and bar government and private pension funds from future investments in such firms.

Travel-Related Guidance. Use of U.S. passports for travel to Iran is permitted. Iranians entering the United States are required to be fingerprinted, and Iran has imposed reciprocal requirements. In January 2006, Iran requested direct flights between the United States and Iran to accommodate a growing number of Iranian-Americans visiting Iran, but little movement on this is expected because of deep U.S.-Iran strains on nuclear and other issues. On November 1, 2006, it was reported that Iran would offer cash incentives to Iranian tour companies that invite Americans to Iran as part of an outreach to the American public.

Status of Some U.S.-Iran Assets Disputes. A U.S.-Iran Claims Tribunal at the Hague continues to arbitrate cases resulting from the 1980 break in relations and freezing of some of Iran's assets. Major cases yet to be decided center on hundreds of Foreign Military Sales (FMS) cases between the United States and the Shah's regime, which Iran claims it paid for but were unfulfilled. About \$400

million in proceeds from the resale of that equipment was placed in a DOD FMS account, and about \$22 million in Iranian diplomatic property remains blocked, although U.S. funds have been disbursed — credited against the DOD FMS account — to pay judgments against Iran for past acts of terrorism against Americans. Other disputes include the mistaken U.S. shoot-down on July 3, 1988, of an Iranian Airbus passenger jet (Iran Air flight 655), for which the United States, in accordance with an ICJ judgment, paid Iran \$61.8 million in compensation (\$300,000 per wage earning victim, \$150,000 per non-wage earner) for the 248 Iranians killed. The United States has not compensated Iran for the airplane itself. As it has in past similar cases, the Administration has opposed a terrorism lawsuit against Iran by victims of the U.S. Embassy Tehran seizure on the grounds of diplomatic obligation.⁶⁶

Conclusion

Mistrust between the United States and Iran's Islamic regime has run deep for over two decades, even before the emergence of a dispute over Iran's nuclear program. Many experts say that all factions in Iran are united on major national security issues and that U.S.-Iran relations might not improve unless or until the Islamic regime is removed or moderates substantially, even if a nuclear deal is reached and implemented. Others say that, despite Ahmadinejad's presidency, the United States and Iran have a common interest in stability in the Persian Gulf and South Asia regions in the aftermath of the defeat of the Taliban and the regime of Saddam Hussein, and that diplomatic overtures to Iran should be explored. Others say that the opposite is more likely, that Iran now feels more encircled than ever by pro-U.S. regimes and U.S. forces guided by a policy of pre-emption, and Iran is redoubling its efforts to develop WMD and other capabilities to deter the United States. Still others believe that Iran has become emboldened by the installation of pro-Iranian regimes in Iraq and Afghanistan, and the new strength of Hezbollah in Lebanon, and that Iran now seeks to press its advantage to strengthen regional Shiite movements and possibly drive the United States out of the Gulf.

⁶⁶ See CRS Report RL31258, *Suits Against Terrorism States by Victims of Terrorism*, by Jennifer K. Elsea.

Figure 1. Structure of the Iranian Government

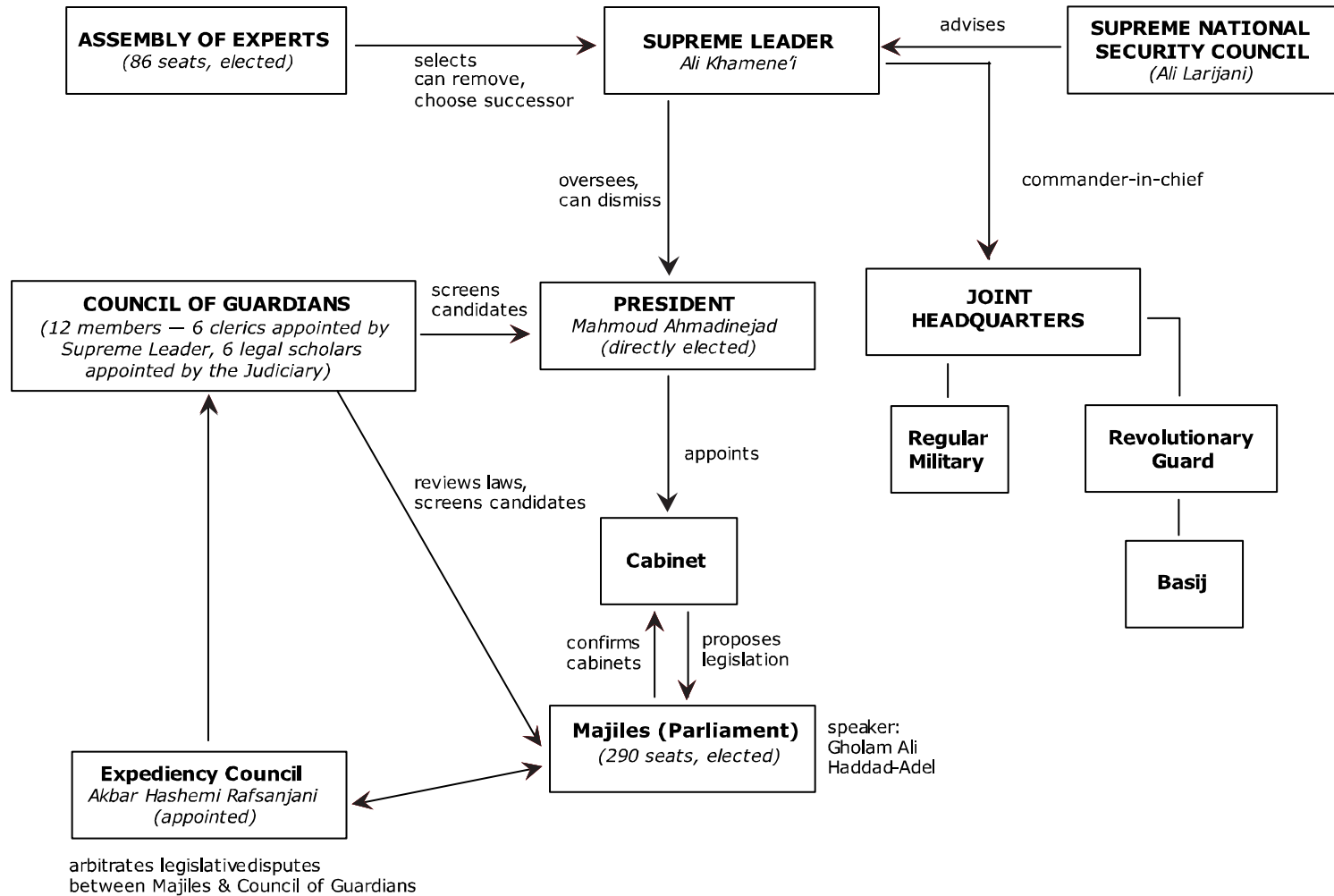


Figure 2. Map of Iran



Source: Map Resources. Adapted by CRS.